OFFICE OF INSPECTOR GENERAL

SOLID WASTE SERVICES

PERFORMANCE AUDIT REPORT

JUNE 1999

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MONTGOMERY COUNTY, MARYLAND
OFFICE OF INSPECTOR GENERAL

SOLID WASTE SERVICES

PERFORMANCE AUDIT REPORT

JUNE 1999

OFFICE OF INSPECTOR GENERAL

Norman D. Butts
Inspector General

TO THE HONORABLE COUNTY COUNCIL AND COUNTY EXECUTIVE FOR MONTGOMERY COUNTY, MARYLAND:

We have conducted a performance audit of the solid waste services program and its management by the Division of Solid Waste Services of the Department of Public Works and Transportation to address an item in our four-year work plan. Our audit was conducted in accordance with Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to provide a reasonable basis for our findings and conclusions. Accordingly, we performed such procedures as we considered necessary in the circumstances.

The objectives of our audit were to determine whether management has properly safeguarded program assets against waste, loss, unauthorized use, and misappropriation; whether management has followed sound practices with respect to the procurement and administration of contracts for various services; whether management has used valid and reliable data in reporting measures of program efficiency and effectiveness; and whether management has corrected or otherwise addressed all findings from prior audits and other similar reviews.

This report is the result of our audit of the issues noted above and is intended for the information of the County Council, the County Executive, and management of the Division of Solid Waste Services and the Department of Public Works and Transportation. This restriction is not intended to limit distribution of this report, which upon delivery to the County Council and County Executive is a matter of public record.

Office of Inspector General

October 11, 1999

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ABBREVIATIONS

Authority	Northeast Maryland Waste Disposal Authority
CAO	Chief Administrative Officer
CIP	Capital Improvements Program
CRC	Contract Review Committee
DIST	Department of Information Systems and Telecommunications
Division	Division of Solid Waste Services
EOB	Executive Office Building
IFB	Invitation For Bids
MDE	Maryland Department of Environment
MES	Maryland Environmental Services
MRA	Maryland Recycling Act
MRF	Materials Recovery Facility
NEA	Northeast Maryland Waste Disposal Authority
NPDES	National Pollution Discharge Elimination System
OIG	Office of Inspector General
Ogden	Ogden-Martin Systems of Montgomery County, Inc.
OMB	County Office of Management and Budget
PEPCO	Potomac Electric Power Company
RFP	Request For Proposal
RRF	Resource Recovery Facility
SBC	System Benefit Charge
WDA	Waste Disposal Agreement

MONTGOMERY COUNTY, MARYLAND
OFFICE OF INSPECTOR GENERAL

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SUMMARY

Purpose and Scope of Audit

This audit was performed as a part of our four-year work plan and was conducted in accordance with generally accepted governmental auditing standards. It describes and analyzes management practices with respect to the following: safeguarding program assets; procurement of goods and services; use of reliable data; and whether management corrected findings from prior audits. The audit period includes County fiscal years July 1, 1993 through June 30, 1998 unless otherwise noted.

Background

The County's solid waste services program is managed by the Department of Public Works and Transportation, Division of Solid Waste Services. The division manages the collection, transportation, and disposal of solid waste in the County. The division operates several facilities either directly or through service contracts. The facilities include a transfer station, a materials recovery facility (recycling center), a resource recovery facility (waste-to-energy plant), and a composting facility. In fiscal year 1998 the division had 64 full time employees. Revenues and expenditures for the same year were over $95 million.

Results in Brief

Our audit contains a total of 28 findings and recommendations. The Division of Solid Waste Services concurred with 15 of our findings, concurred in part with six findings, and did not concur with seven (**see: Findings and Recommendations Summary, pp. 3-8**) Major findings included the following:

- identification of $226,781 in uncollected revenue (**see: Finding No. 1, pp. 18-19**);

- identification of misstatements totaling $815,661 on equipment, machinery, and vehicle inventory schedules including $614,551 for equipment found but not listed on the schedules and $201,110 for equipment listed but not found. (**see: Finding Nos. 2-5, pp. 19-28**;

SUMMARY (Continued)

- questioned costs of $490,000 for year-end equipment purchases that avoided competitive procurement procedures (**see: Finding No. 14, pp. 43-46**);

- need for additional oversight and documentation regarding $14,557,280 in non-competitively bid public entity contracts and contract modifications (**see: Finding Nos. 15-18, pp. 46-55**); and

- need for more reliable data and more timely, clear, and concise reporting (**see: Finding Nos. 21-28, pp. 61-70**).

Other findings document the need for division management to strengthen review of employee travel and use of County telephones; to improve computer systems security and supervision; to improve internal and external communication; and to examine the causes of high employee turnover.

Report Outline

The following sections of this report present our analysis of the County's solid waste services program. **Chapter 1** contains background information, including information on organization and management, facilities and programs, and financial and operating results. This section also contains information about the audit's scope, objectives, and methodology. The chapter concludes with a statement concerning the division's significant achievements. **Chapter 2** contains our findings and recommendations grouped into sub-chapters on program assets, procurement practices, valid and reliable data, and prior audit findings. A short conclusion is found in **Chapter 3**.

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FINDINGS AND RECOMMENDATIONS SUMMARY

	Finding and Recommendation	*Page*	*Council Action Required*	*Agency Response*
	PROGRAM ASSETS			
1.	Uncollected Revenue ($226,781) – Division Needs To Collect Fees Found To Be Owed As A Result Of Staff Research. Collect undercharges in timely manner; consider amending county regulation to allow collection of back fees.	18	No	Do Not Concur
2.	Division Needs To Improve Efforts At Identifying And Recording Fixed Asset Acquisitions And Disposals. Identify and document acquisitions, including third-party acquisitions; document disposals; forward information to Department of Finance in timely manner.	19	No	Concur
3.	Division Needs To Place More Emphasis On The Importance Of Maintaining Fixed Asset Inventory Schedules. Ensure accurate schedules; improve accountability for assets.	24	No	Concur
4.	Division Needs To Improve Communication With Department Of Finance Regarding Responsibility For Maintaining Fixed Asset Schedules. Clearly define areas of responsibility for asset accounting; provide training pertaining to asset accountability.	25	No	Concur

FINDINGS AND RECOMMENDATIONS SUMMARY (CONTINUED)

	Finding and Recommendation	*Page*	*Council Action Required*	*Agency Response*
5.	Division Needs To Provide For Independent Confirmation Of Fixed Asset Inventory. Conduct periodic physical inventories of assets; test documentation which supports acquisition and disposal transactions.	27	No	Concur In Part
6.	Division Needs To Collect Fees Resulting From Non-Residential Systems Benefit Charge Appeals Process. Collect underpayments and enforce pertinent County regulations.	28	No	Concur
7.	Division Needs To Devise A More Timely Non-Residential Systems Benefit Charge Appeals Process. Ensure a timely appeals process;	29	No	Concur
8.	Division Needs To Improve Computer Systems Security And Supervision. Increase level of supervision over tax database work; provide individual logon ID's for employees.	30	No	Concur
9.	Division Needs To Improve Communications With Employees. Include more employees in staff meetings; improve communication technology for cashiers; implement processes to keep staff informed of planned changes.	31	No	Concur In Part
10.	Division Needs To Examine Causes Of High Employee Turnover. Identify causes of turnover; stabilize workforce.	33	No	Concur

FINDINGS AND RECOMMENDATIONS SUMMARY (CONTINUED)

	Finding and Recommendation	*Page*	*Council Action Required*	*Agency Response*
11.	Division Needs To Review Travel Expenses To Ensure Compliance With County Policies. Review payments made for long-distance phone calls and meals; recover non-allowable travel expenses.	34	No	Concur In Part
12.	Division Needs To Review Employee Use Of Telephones. Review telephone bills on monthly basis.	38	No	Concur In Part
13.	Division Needs To Ensure Employees Reimburse County For Personal Telephone Calls. Review telephone bills to identify personal calls; obtain reimbursement for personal calls; limit long distance access on phones.	39	No	Concur

PROCUREMENT PRACTICES

	Finding and Recommendation	*Page*	*Council Action Required*	*Agency Response*
14.	Questioned Costs ($490,000) – Division Needs To Comply With Procurement Regulations In Year-End Purchases Of Equipment. Comply with procurement regulations; review end-of-year purchases and purchases through contractors; establish procedure for employees to question appropriateness of purchases.	43	No	Do Not Concur
15.	Division Needs To Consider Alternatives To Non-Competitive Public Entity Contracts. Emphasize competitive procurements; ensure public entity contracts are in best interest of County; ensure fair and reasonable compensation; explore private sector alternatives.	46	No	Do Not Concur

FINDINGS AND RECOMMENDATIONS SUMMARY (CONTINUED)

	Finding and Recommendation	*Page*	*Council Action Required*	*Agency Response*
16.	Division Needs To Ensure Documentation To Support Determination That Public Entity Contracts Are In "Best Interest Of County." Ensure timely, written documentation.	49	No	Do Not Concur
17.	Division Needs To Ensure Documentation To Support Determination That Public Entity Contract Cost And Price Data Are "Reasonable." Ensure timely, written documentation.	51	No	Concur
18.	Division Needs To Ensure More Oversight Of Public Entity Contract Approval And Modification Processes. Review use of public entity contracts; request CRC approval of contracts and modifications.	52	No	Do Not Concur
19.	Division Needs To Improve Supervision Of Contractor Compliance With State Permit Requirements. Increase supervision of contractors; confirm contractor compliance with regulatory permits and licenses; comply with MDE consent agreement.	55	No	Do Not Concur
20.	Division Needs To Assess And Collect Liquidated Damages From Trash Collection Contractors In A More Timely Manner. Ensure timely assessment, collection, and documentation of liquidated damages; adjust contractor payments to collect damages due to County.	57	No	Concur

FINDINGS AND RECOMMENDATIONS SUMMARY (CONTINUED)

	Finding and Recommendation	*Page*	*Council Action Required*	*Agency Response*
VALID AND RELIABLE DATA				
21.	Division Needs To Complete Solid Waste Generation Study In A More Timely Manner. Complete non-residential waste generation study; amend fee structure accordingly.	61	No	Concur
22.	Division Needs To Distinguish Between “Actual” And “Estimated” Numbers In Public Reports. Identify source and reliability of numbers used in published reports.	62	No	Do Not Concur
23.	Division Needs To Improve Communication With Customers And Stakeholders. Edit public information releases for brevity and clarity; coordinate release of information to public.	63	No	Concur
PRIOR AUDIT FINDINGS				
24.	Division Benchmarking Effort Needs To Include Output Measures. Benchmark performance.	65	No	Concur
25.	Division Needs To Ensure Reports Prepared For Citizens Are Easier To Understand. Determine citizen information needs; issue easy to understand publications.	66	No	Concur
26.	Division Needs To Ensure Financial Reports Are Prepared In A More Timely Manner. Issue financial reports in a timely manner.	67	No	Concur In Part

FINDINGS AND RECOMMENDATIONS SUMMARY (CONTINUED)

	Finding and Recommendation	*Page*	*Council Action Required*	*Agency Response*
27.	Division Needs To Survey Customer Complaints. Re-institute program to survey customer satisfaction.	68	No	Concur
28.	Division Needs To Provide Monthly Reports On Pilot Programs. Issue formal written reports on pilot projects.	69	No	Concur In Part

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SOLID WASTE SERVICES

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1. INTRODUCTION

1.1 Background

Solid waste services are provided by the County pursuant to a Comprehensive Solid Waste Management Plan adopted in 1982 and amended in 1992 and 1998. The plan is approved at the local level by the County Council and at the state level by the Maryland Department of the Environment ("MDE"). This section of the report briefly summarizes various aspects of solid waste services in conjunction with the plan including organization and management, facilities and programs, and financial and operating results.

1.1.1 Organization and Management

Primary responsibility for the solid waste services program rests with the Division of Solid Waste Services ("division"). The division, comprised of 64 full time employees, is part of the Department of Public Works and Transportation and is headed by the division chief. There are three sections, each headed by a section chief, including a collections section; a disposal systems implementation, waste minimization, and recycling section; and an operations section (**See: Figure 1)**.

The collections section is responsible for ensuring efficient collection of trash and recyclable materials. The 28 employees in this section include 15 inspectors who oversee the work done by contractors assigned to various collection routes and six employees who field telephone inquiries and complaints from customers.

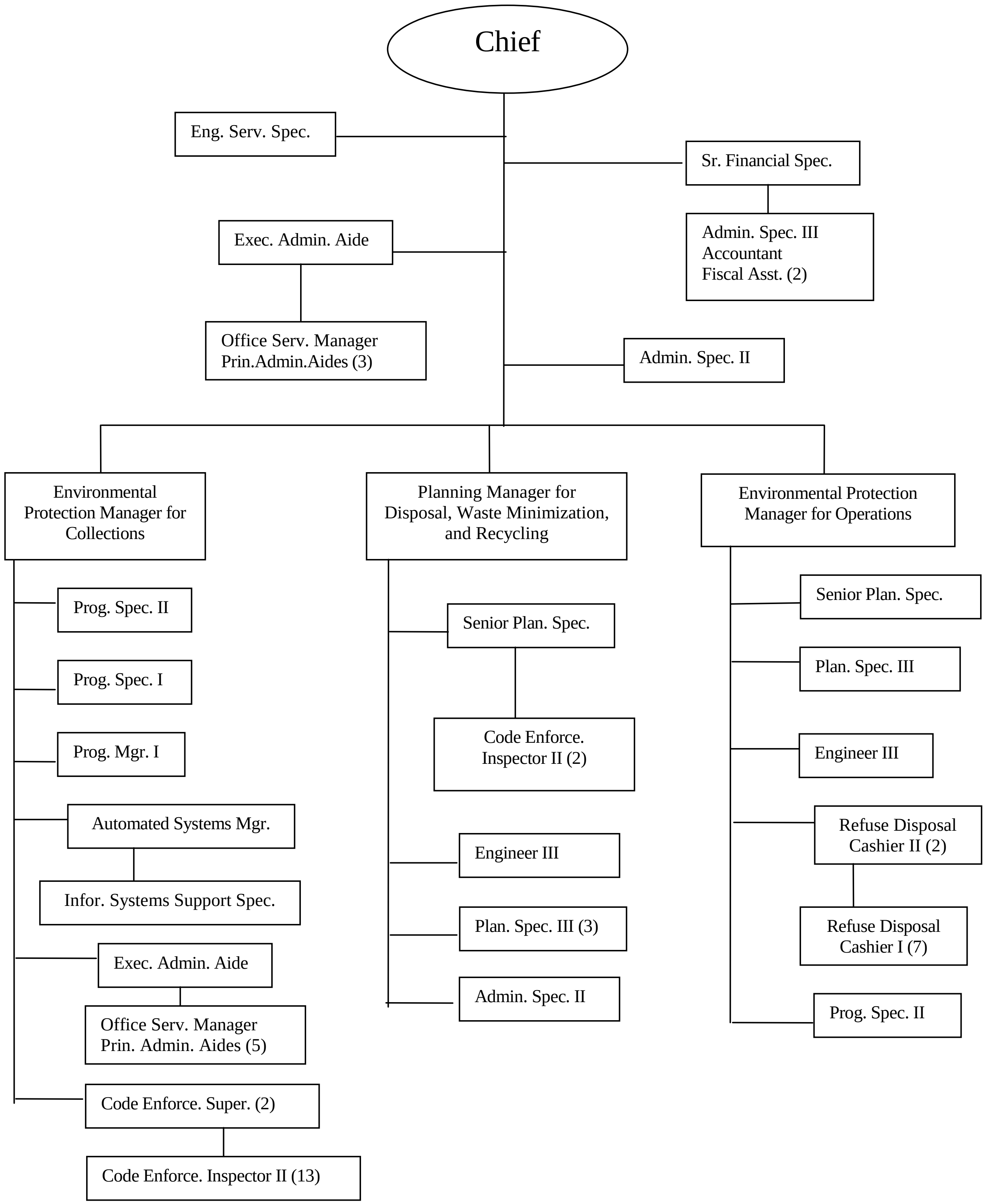
The disposal systems implementation, waste minimization, and recycling section is comprised of nine employees. This section provides planning, research, analysis, and educational outreach services for the division and also manages the resource recovery facility contracts.

The operations division employs 14 people. This section is primarily responsible for overseeing the operations of the transfer station and the materials recovery facility, and the closure of the Oaks Landfill.

1. **INTRODUCTION (Continued)**

Figure 1.

DIVISION OF SOLID WASTE SERVICES
ORGANIZATION CHART



Source: OIG analysis of Division of Solid Waste Services data.

The remaining 13 employees provide administrative support to the division in areas including financial management, personnel administration, and clerical support. They include the division chief and employees organizationally attached to the chief's office.

1.1.2 Facilities and Programs

The principal components of the County's solid waste services program include the transfer station, the materials recovery facility, recycling and waste reduction programs, the resource recovery facility, and a composting facility. Unless otherwise noted, all financial and tonnage information is from fiscal year 1998. All facility averages are based on a 365-day year.

The transfer station has been in operation since 1982. It is located on a 40 acre site in Derwood, Maryland and is designed to handle 2,000 tons of trash per day. On an average day the facility handles 1276 tons. All residential trash and a portion of commercial trash is delivered by licensed haulers to the transfer station. In addition County residents may deliver up to 500 pounds of trash in their automobiles. Trash received at the transfer station that can be burned is sent by rail to the resource recovery facility. Trash that cannot be burned, such as construction and demolition debris, is taken by tractor-trailer to a private out-of-state landfill.

The materials recovery facility ("MRF"), also known as the recycling center, is located on a ten acre site adjacent to the transfer station. Maryland Environmental Services manages the MRF pursuant to a public entity contract. The MRF recycles newspaper, glass and plastic bottles, aluminum, and tin cans. Newspaper is shipped to a contractor. The other materials are baled and sold to various markets. On an average day the MRF recycles 162 tons of materials.

Recycling and waste reduction programs include on-going efforts to identify and match potential recycling sources, programs, and markets and to conduct education and outreach programs to explain the need for waste reduction. Most single family residences and multi-family properties containing six or fewer dwelling units receive curbside collection of recyclable materials including grass clippings, brush, and household appliances. Owners of multi-family properties with more than six units as well as businesses, institutions, and government agencies are required to report to the County annually tonnages recycled for their respective properties. To keep hazardous materials such as pesticides, paints, used motor oil and the like from entering the waste stream the County sponsors 16 to 18 hazardous waste collection events annually at five sites around the County.

The resource recovery facility ("RRF") is located on 34 acres of land in Dickerson, Maryland. It consists of three steam boilers each designed to burn up to 600 tons of trash per day. On an average day the RRF burns 1194 tons of trash. A by-product of the operation is the production of electricity sold to PEPCO through the utility's nearby generating station.

In fiscal year 1998 revenues from the sale of electricity amounted to $5,483,809. The RRF was constructed and is operated as a joint venture by the Northeast Maryland Waste Disposal Authority and the County. The County may purchase the facility for $1 after bonds sold by the authority to finance the project are paid. The authority contracts with a private company for the operation of the RRF. In addition to debt service on the bonds, the County pays for the facility's operations. In fiscal year 1998, net debt service was $29,824,259. The total value of the County's payments plus credits to offset expenses was $56,336,344. Some materials remaining after the burning process are recycled, the rest are transported to an out-of-state landfill.

The composting facility is located on a 118 acre site near Dickerson, Maryland adjacent to the RRF. According to an agreement with the Sugarloaf Citizens Association, up to 77,000 tons of leaves and grass can be composted annually in an open-air windrow operation using mobile turning equipment. The compost facility is operated by Maryland Environmental Services ("MES"). During fiscal year 1998 the composting facility processed a daily gross average of 162 tons of materials.

1.1.3 Financial and Operating Results

The County funds solid waste services through various revenue sources: systems benefits charges; refuse collection and leaf vacuuming charges; tip fees; and revenue from sales of electricity, recyclable materials, methane, and compost. In fiscal year 1998 those revenue sources in total generated $101,078,571.

System benefits charges are imposed on residential and non-residential generators of solid waste. The charges can include both a base charge and an incremental charge. Base systems benefit charges cover the cost of maintaining solid waste programs and facilities including program administration, debt service, fixed costs of disposal programs and facilities, and waste reduction programs. These charges are imposed on all generators. Incremental systems benefits charges are imposed only on those generators receiving certain services such as curbside recycling. For fiscal 1998 fees collected from system benefits charges totaled $54,532,395.

Revenue from refuse collection and leaf vacuuming charges totaled $4,651,548 and $3,251,457 respectively in fiscal year 1998. These charges cover the costs of refuse collection and leaf vacuuming services in those districts where the services are provided.

Tip fees accounted for $18,744,255 in solid waste revenues collected during fiscal year 1998. These fees are charged per ton of trash delivered or "tipped" from a truck at the transfer station. Tip fees per ton were $44 for refuse, $29 for yard trim, and $15 for recyclable materials collected through other than the curbside recycling program. Tip fees are adjusted periodically to reflect competitive pressures.

1. **INTRODUCTION (Continued)**

In fiscal year 1998, in addition to the fees and charges noted above, the County receives credit from the sale of electricity and ferrous materials at the RRF. Those credits were $5,483,809 and $304,732. The County receives revenue from the sale of methane gas from the closed landfills and recyclable materials at the MRF. The amounts received from these sales were $392,366 and $2,070,409.

Operating expenses for solid waste services programs totaled $94,893,126 in fiscal year 1998. Total solid waste processed by the County for that year was 558,900 tons. The cost per ton was $169.79. (For a summary of sources and uses of funds for fiscal year 1997, the latest year for which program summary information was available, **see: Table 1**.)

Table 1.

SOURCES AND USES OF FUNDS
(FY 1997)[1]

SOURCE	AMOUNT	PERCENT
Systems Benefit Charges	$49,075,000	51.58%
Tipping Fees	20,291,000	21.33%
Collections Fees	5,952,000	6.26%
Electricity Credit	5,108,000	5.37%
Investment Income	5,038,000	5.29%
Authority Bond Receipts	4,040,000	4.25%
Leaf Vacuuming Fees	3,058,000	3.21%
Sale of Recycled Materials	2,141,000	2.25%
Miscellaneous[2]	447,000	0.47%
Total	**$95,150,000**	**100.00%**

[1] FY 1997 program information was most recent data available.
[2] Includes methane royalties, license fees, and sale of compost bins.

Table 1 (Continued).

USE	AMOUNT	PERCENT
Resource Recovery Facility	$54,051,000	56.81%
Recycling Collection	6,232,000	6.55%
Trash Collection	6,222,000	6.54%
Landfill & Enforcement	5,415,000	5.69%
Recyclables Processing	3,970,000	4.17%
Leaf Vacuuming	3,392,000	3.56%
Yard Waste Collection	3,338,000	3.51%
Landfill Closure	3,245,000	3.41%
Compost Facility	1,803,000	1.89%
Waste Reduction Facilitation	1,090,000	1.15%
Miscellaneous[3]	1,263,000	1.33%
Unallocated Balance	5,129,000	5.39%
Total	**$95,150,000**	**100.00%**
Source: OIG analysis of Division of Solid Waste Services and County OMB data.		

[3] Includes hazardous materials handling, Transfer Station drop-off recycling and Transfer Station mulch processing programs.

1.2 Scope, Objectives, and Methodology

We performed our audit of the County's solid waste services program in accordance with generally accepted governmental auditing standards. Accordingly, we included such procedures as we considered necessary in the circumstances.

1.2.1 Scope and Objectives

This report describes and analyzes the operation and management of solid waste services by the Division of Solid Waste Services, Department of Public Works and Transportation from July 1, 1993 through June 30, 1998. Although some issues occurring outside that timeframe have been taken into account, the primary focus of this audit remains within the identified audit period.

We focused on management issues related to solid waste services. Our focus addressed the following specific objectives:

1. Has management properly safeguarded program assets against waste, loss, unauthorized use, and misappropriation?

1. Has management followed sound practices with respect to procurement and administration of contracts for various services?

2. Has management used valid and reliable data in reporting measures of program efficiency and effectiveness?

3. Has management corrected or otherwise addressed all findings from prior audits and other similar reviews?

1.2.2 Methodology

To obtain general background information and develop an understanding of solid waste service programs nationally, we reviewed reports, articles, and research papers published by other governmental units, and professionally-recognized associations and non-governmental organizations.

To obtain background information about Montgomery County's solid waste services program to help us in designing the methodology for our audit, we used three basic approaches. First, we were given an in-depth briefing and a tour of solid waste facilities by division management. Second, we conducted forty-six (46) structured interviews as follows: current and former division administrators and employees (36), solid waste professionals in the private sector (2), members of the solid waste advisory committee (6), and citizen-activists (2). Third, we reviewed the Montgomery County Comprehensive Solid Waste Management Plan; County laws including Chapter 48 of the Montgomery County Code and pertinent executive regulations; division organization charts; budgets and financial reports; bond documents; and numerous feasibility, consultant, and management reports.

To obtain information necessary for us to achieve our audit objectives, we used standard methods – document and file reviews, interviews, fieldwork sampling and testing, and descriptive analysis. To obtain a better understanding of division procurement and contract administration issues, we reviewed County procurement laws and regulations, interviewed division and Office of Procurement employees, and conducted a review and analysis of a sample of vendor contract files. To identify issues related to reporting measures for program efficiency and effectiveness we interviewed division officials and employees and reviewed and analyzed revenue, expenditure, and operational data, as well as other management information. To determine how effectively the division has safeguarded program assets we interviewed division, Department of Finance, and Department of Information Systems and Telecommunications officials and employees; and conducted a review and analysis of a sampling of fixed assets, telephone bills, and travel vouchers. To determine the extent to which division management had corrected or otherwise addressed findings from prior audits and other similar reviews, we reviewed the following reports and surveyed division implementation of findings and recommendations in those reports: Final Report, Ecodata, Inc. (1995); Financial Review of the Solid Waste Funds, KPMG Peat Marwick LLP (1995); Inquiry on Chargebacks to the Solid Waste Disposal Fund, Office of Legislative Oversight (1996); Review of the Solid Waste Fund Rate Calculations, Arthur Anderson (1997); and Annual Review of Real Estate Tax Levy, Division of Internal Audit (1997 and 1998).

1.3 Significant Achievements

It is important to recognize that performance auditing by its nature is a critical process, designed to identify problems or weaknesses in past and existing practices. We note here a number of successful and positive practices, procedures, and programs that we observed and for which sufficient documentation was available for verification.

1.3.1 Resource Recovery Facility

The RRF has been the recipient of several noteworthy awards in recent years. In 1997 the American Society of Civil Engineers selected the County’s waste-to-energy operation as the “Outstanding Civil Engineering Project.” The RRF was cited as a prime example of civil engineering achievement. The selection of the facility was based on the incorporation of state-of-the-art pollution control technology in the facility to meet and exceed environmental protection requirements for air emissions, water quality and wastewater management, ash treatment and handling, noise control, and unique containerized waste transport by rail.

In 1998 the RRF received two additional national awards. The first was from the American Academy of Environmental Engineers. The facility, which received the academy’s top award in the operations and management category, was recognized for having “minimized environmental impacts while annually processing more than 430,000 tons of solid waste.” The RRF was also cited for hauling materials by rail to the site so as to reduce daily truck traffic, vehicle emissions, and noise. The second award of the year was the Gold Award for Excellence from the Solid Waste Association of North America. The purpose of this award was to recognize the RRF as a facility that has achieved the highest level of success in providing environmentally and economically sound solid waste management services to the County.

1.3.2 Materials Recovery Facility

The MRF won one of the 1997 Solid Waste Technologies “MRF Awards.” The awards look at the operational performance of the nation’s materials resource recovery facilities. The County’s MRF was a repeat winner having also won in 1994. The County’s facility was cited for providing educational services through tours for 10,000 students and other visitors per year; for being tops in productivity as measured by 830 tons processed per full time employee, or equivalent; and for effective public awareness efforts as measured by an information hotline staffed by 250 volunteers.

1.3.3 Ecowise

In 1997 the Chesapeake Bay Local Government Advisory Committee presented its “Award for Community Innovation” to the division for Ecowise, a program providing low-cost hazardous waste disposal services to small businesses. The award recognizes local projects that contribute to the restoration of the Chesapeake Bay.

1.3.4 Household Hazardous Waste

The household hazardous waste program has won two national awards. In 1993 the division earned a first place “Public Technology Innovations Award” sponsored jointly by the National League of Cities, the National Association of Counties, and the International City/County Management Association. In 1997 the Solid Waste Association of North America recognized the division as the recipient of an “Excellence in Solid Waste Management Award” for the program.

2. FINDINGS AND RECOMMENDATIONS

2.1 Program Assets.

Has division management properly safeguarded program assets against waste, loss, unauthorized use, and misappropriation? Our findings with respect to safeguarding assets (**Finding Nos. 1 - 13**) show a need to collect all fees owed the County; improve fixed assets accounting and computer security; devise a more timely systems benefit charge appeals process; improve communications with employees; examine employee turnover; and review travel expenses and expenses related to personal use of County telephones.

The County has a considerable investment in program assets used by the division. Sound asset management controls require management to account for those assets, budget for new acquisitions as well as replacements, provide adequate insurance coverage, ensure the timely recording of acquisitions and dispositions, and provide overall accountability for their use and safeguarding. The division manages program assets including people, land, buildings, office equipment, machinery and heavy equipment, vehicles, and computers and telecommunications equipment. Those assets are located at various sites throughout the County and are spread among several programs administered by the division. Our review of management practices associated with fixed assets and other program assets identified important weaknesses in management controls.

Finding No. 1: Uncollected Revenue ($226,781) -- Division Needs To Collect Fees Found To Be Owed As A Result Of Staff Research

We found the division has not collected in a timely manner all Systems Benefit Charge revenue it is owed. As of February 12, 1999 division employees had identified eleven apartment complexes which had been undercharged for the Systems Benefit Charge during the last full year tax levy. The amount of the undercharge for these customers was $224,916. In addition, 64 other residential customers were identified who had underpaid a total of $1,865.

All users of solid waste services should pay their fair share. By allowing some customers to not pay their fair share the division is in effect requiring other customers to pay more than is equitable for solid waste services.

Recommendation:

We recommend all undercharges be collected as soon as they are discovered. The division should consider amending Executive Regulation 7-98 to allow collection of back fees to such time as the SBC was established and the building was in place or as otherwise allowed by law.

Agency Response:

The Division does not concur.

By June 2, 1999, undercharges for Levy Year 1998 identified under our ongoing review process had grown to over $312,000 for which the Division did request Finance to re-bill. The Division also immediately began researching how far back each condition existed giving rise to an increased Levy 1998 billing, and subsequently requested billings for Levy Years 1997 and 1996, as applicable.

Current law requires that the Solid Waste System Benefit Charge be collected in the same manner, and under the same statutory authority, as County property taxes. If it discovers an error, the County can re-bill for the current, and prior seven levy years.

Finding No. 2: <u>Division Needs To Improve Efforts At Identifying And Recording Fixed Asset Acquisitions And Disposals</u>

We found the division needs to improve efforts regarding the identification and recording of fixed assets. We conducted testing to verify the existence of individual fixed assets of the division listed on fixed asset schedules for fiscal years 1997 and 1998. Problem areas we noticed during testing included recording the acquisition of assets in a timely manner; tracking and accounting for assets purchased through third parties; identifying and recording equipment and machinery purchased as part of larger capital improvements projects; and recording the disposal of assets in a timely manner. The failure to maintain accurate fixed asset inventory schedules causes division financial statements to be inaccurate.

<u>Acquisition of Assets</u>

Fixed asset schedules maintained by the division and the Department of Finance did not include certain assets acquired by the division. While conducting our testing, we identified assets of the division that should have been recorded on the schedules but were not (**see: Table 2**).

Table 2.

**EQUIPMENT FOUND
BUT NOT ON SCHEDULE**

ITEM	LOCATION	YEAR PURCHASED	ACQUISITION VALUE
Caterpillar 966F Front End Loader	Transfer Station	1997	$240,000
Light Tower	Transfer Station	1997	$ 7,572
Light Tower	Transfer Station	1996	$ 7,572
Compost Bagging Machinery [Hopper, Conveyer (2), Palletizer, Sealer, Wrapper]	Transfer Station	1998	$127,000
Hy-lift Genie Boom	MRF	1998	$ 40,907
Daewoo Forklift	MRF	1995	$ 16,500
Kubota Tractor	Composting Facility	1992	
Scarab Windrow Turning Machine	Composting Facility	1993	$175,000
		Total	**$614,551**
Source: OIG Fieldwork.			

Management is accountable for timely recording the acquisition of program assets. The failure to include these items on the fixed asset schedule is a serious weakness in the management control practices of the division. The transactions in which these assets were acquired were not identified and documented for inclusion on the fixed asset schedule. Assets, especially machinery and equipment, are subject to theft and misuse. Efforts to safeguard program assets are hindered if the assets are not documented when initially acquired.

<u>Third Party Acquisitions</u>

In response to our inquiries regarding accounting for fixed assets acquired through third-party entities, the division and the Department of Finance initially expressed some uncertainty over the ownership status and proper accounting for those assets. After conducting a further review, the Department of Finance indicated that according to the terms of the written contracts between the County and the other public entities, assets acquired by those entities on behalf of the County are the property of the County and revert to the County upon completion of the contract. The Department of Finance acknowledged that more research was needed to ensure that the division's assets acquired by third parties were being treated appropriately for accounting purposes.

The division has a fiduciary responsibility to safeguard the assets acquired through its activities, including those acquired through third-party contractors on behalf of the County. In addition to any schedules maintained by Department of Finance, the division should maintain an accurate, up-to-date schedule of all fixed assets, including those in the possession of third-party contractors.

Assets Acquired Through Capital Improvement Projects

Machinery and equipment purchased as part of capital improvement projects are not always individually identified and recorded separately on the fixed assets schedule. While reviewing fixed asset schedules, we noticed a number of entries indicating a transfer from a CIP. We questioned division and Department of Finance personnel about those entries. They told us that machinery and heavy equipment are sometimes purchased as part of a larger expenditure for a CIP. The Department of Finance on occasion has been able to identify specific assets and break-out the costs associated with the asset for individual listing on the fixed asset schedule. However, the identification of machinery and equipment purchased in this fashion is not always made in a timely manner and some such assets may not be identified at all.

Disposal of Assets

Fixed asset schedules maintained by the division and Department of Finance included items that are no longer the property of the division. While conducting our testing, we were unable to account for certain assets listed on the fixed asset schedule for 1998. The division told us the missing assets had been disposed of previously. There is no adequate documentation to support the disposal of the items (**see: Table 3**).

Table 3.

EQUIPMENT ON SCHEDULE BUT NOT FOUND

ITEM	YEAR PURCHASED	ACQUISITION VALUE
Power Plant mod/repair	1978	$ 4,000
Power Plant mod/repair	1978	$ 2,676
Wood Waste Process Equip	1991	$ 23,000
Crane – Barko	1983	$ 35,000
Crane – Barko	1983	$ 35,000
Crane – Mobile Lieberr	1983	$ 86,534
Water Quality Monitor Trailer	1978	$ 15,000
	Total	**$201,110**
Source: OIG Fieldwork.		

Management is accountable for timely recording the disposal of program assets. The failure to remove these items from the fixed asset schedule is a serious weakness in management control practices. The transactions in which these assets were disposed of were not identified and documented and the assets were not deleted from the fixed asset schedule.

Assets, especially machinery and equipment, are subject to theft and misuse. While there is no information to suggest improprieties with the disposal of this equipment, there is no documentation to support the disposal of several expensive pieces of machinery. Failure to document the disposal of assets can create an appearance of impropriety that can undermine public confidence that program assets are being safeguarded.

Recommendation:

We recommend division management work with the Department of Finance to ensure management controls are in place to accomplish the following:

- identify all acquisitions of fixed assets; document such acquisitions and forward that information to the Department of Finance in a timely manner;

- identify all fixed assets acquired through third-party entities under contract to the County and implement any necessary changes to current practices regarding fixed asset accountability; compile a schedule of all program or activity fixed assets owned by the County, currently in the possession of third-party contractors; document such acquisitions and forward that information to the Department of Finance in a timely manner;

- identify and record all machinery and equipment acquired through a CIP; document such acquisitions and forward that information to the Department of Finance in a timely manner;

- identify all disposals of fixed assets; ensure disposals of assets comply with Office of Procurement regulations; document all disposals and forward appropriate information to the Department of Finance in a timely manner.

Agency Response:

The Division concurs:

Items put on the schedule should be identifiable. Even when CIP expenditures are grouped to represent a logical whole, component parts need to be identified should they be separated from the whole and sold or disposed of. These breakouts from CIP groupings on the Schedule have been possible when needed in the past. Most groupings are for landfill closure where physically separating components is not practical or envisioned. However, *there are many CIP groupings on the list. We have recently (April 23, 1999) hired an Accountant/Auditor III to review these items and to ensure they are recorded with proper control standards, documentation and recording classifications. He will complete this review by July 2000.*

The cited equipment was purchased via third-party field operations contacts for which management consistently, and with the knowledge of other departments, budgeted, purchased and expensed as operating contract costs rather than under capital outlay and depreciation. Because of uncertainties regarding the ownership status for budget and accounting purposes of these operating contractor purchases, the Division raised the issue back in autumn, 1998, in a meeting with OMB. Finance was consulted and determined that the items purchased through the MES operating contracts should be recorded in the County's financial records as depreciation expense. Note that all equipment in the FY2000 budget is loaded as capital outlay, rather than operating. At the Division's request, Finance provided specific language that the Division used for instructing its Group Managers in determining which equipment purchased through a third party operating contractor are items for the County to include on its fixed asset schedule. (See memos dated May 25 and June 28, 1999, attached.)

$615,000 of equipment was not on the depreciation schedule because we expensed it in the year purchased rather than depreciating it over time. Expensing this equipment in the year purchased did not reduce our ability to safeguard it. We did fail to request removal from the depreciation schedule $201,000 (original cost) of previously disposed of equipment. We subsequently corrected the schedule. Because this equipment was fully depreciated, there has been no ongoing monetary effect on the financial statements.

The Division itself identified this issue and so informed the OIG. Also, the Division sought, secured and applied the needed guidance without OIG involvement. The accounting effects were immaterial to the fund, and the recommended management controls were already put in place.

We concur that the Depreciation Schedule listed the cited equipment not in the Division's possession, and that there is no information to suggest improprieties.

The first two items cited ($4,000 and $2,676) were disposed of prior to the tenure of current management. We have not identified the $23,000 wood waste processing unit. The current site manager has attested that the mobile crane was sold for steel scrap for about $90 and was so booked. All these have long been fully depreciated.

The other items do have documentation to support disposal. Fully worn out Barko Cranes were demolished within the scope of the Transfer Station reconstruction. The fully-depreciated water quality-monitoring trailer was transferred to EMOC and then to Highway Services. (See attached title and memos dated May 17, 1995 and June 16, 1995.)

Management should have requested de-listing and forwarded this documentation to Finance when the equipment was disposed.

All Program Managers have received additional training in regards to the proper recording of fixed asset disposal. To assure that management controls are in place, all will receive additional training, including written policy and procedures with examples on the proper and timely reporting of asset disposal and conformance to applicable Office of Procurement regulations. This will be fully implemented in writing by mid-November 1999.

Finding No. 3: Division Needs To Place More Emphasis On The Importance Of Maintaining Fixed Asset Inventory Schedules

We found the division needs to place more emphasis on the importance of maintaining fixed asset inventory schedules. This finding is based on several observations:

- representations by division management that fixed asset inventory schedules had to be obtained from the Department of Finance;
- number of discrepancies, some long-standing, involving fixed assets listed on the inventory schedules;
- failure of division personnel to review and update the inventory schedule as requested each year by the Department of Finance;
- belief of division employees that maintaining the fixed asset inventory schedule was a Department of Finance responsibility;
- lack of clear understanding by the division about how assets are added or deleted from the fixed asset inventory schedule; particularly with regard to assets acquired through capital improvements program expenditures;
- lack of clear understanding of the ownership status of fixed assets purchased with County funds through other entities, i.e., contractors operating division facilities.

The division has acquired over $100 million in fixed assets directly associated with its programs and activities. The division has a fiduciary responsibility to safeguard its assets. Maintaining an accurate, up-to-date inventory of all fixed assets is a basic and essential task to be performed as part of the division's stewardship of County assets. The relationship between the division and the Department of Finance with respect to the fixed assets inventory has been described by both as a team effort. The division is not participating to the extent necessary as a member of the team, but instead is relying too heavily on the Department of Finance to fully account for its fixed assets. Division personnel should have a better understanding of how its fixed asset inventory schedule is developed, how items are added or deleted from the inventory schedule, and why a schedule is important.

Recommendation:

We recommend the division ensure its files and documentation pertaining to fixed asset inventory schedules are accurate, up-to-date and consistent with records maintained by the Department of Finance.

We further recommend the division review its policies and procedures regarding accountability for fixed assets, in conjunction with the Department of Finance where appropriate, to establish clear policy statements for all division management personnel regarding the following:

- the importance of identifying and safeguarding assets;
- the importance of identifying division management personnel responsible for ensuring the timely exchange of information with the Department of Finance regarding acquisition or disposal of assets;
- the importance of identifying the flow of information within the division and to other departments regarding asset acquisition and disposal; and
- the importance of establishing program manager accountability for assets utilized within the manager's sphere of activity.

Agency Response:

The Division concurs.

Finding No. 4: Division Needs To Improve Communication With Department Of Finance Regarding Responsibility For Maintaining Fixed Asset Schedules

We found a lack of effective communication between the division and the Department of Finance regarding areas of responsibility for maintaining the division's fixed asset schedules. The relationship between the division and the Department of Finance regarding compiling and maintaining the division's fixed asset schedule was described as a team effort. It is implied that each agency shares responsibility for asset accountability. Based upon the inaccuracies we found with the division's fixed asset schedules, it is clear to us that there is a breakdown in the lines of communication between the two agencies in this partnership. The division looks to the Department of Finance to maintain the asset schedule while the Department of Finance looks to division to provide accurate and timely information. Each agency believes ultimate accountability resides with the other agency. For this team effort to be effective there must be clear lines of responsibility. Each agency must complete its tasks in a timely manner and appreciate its role in providing program accountability. Further, each agency must understand the role and work of the other agency.

Management controls are designed to ensure that resources are used consistent with the agency mission, that resources are protected from waste, fraud and mismanagement, and that reliable and timely information is obtained, maintained, reported, and used for decision-making. Control standards require accountability for the custody and use of resources. The County has invested a significant amount of money in fixed assets that represent a sizeable portion of the resources utilized by the division to perform program activities. Separation of duties and accountability for the division's assets should be clearly defined.

Recommendation:

We recommend the division work with the Department of Finance to clearly define areas of responsibility for fixed asset accounting; we further recommend adequate training be provided to ensure division personnel have sufficient understanding of management control issues pertaining to fixed assets.

Agency Response:

The Division concurs for the following reasons:

While it is necessary that Finance maintains the Depreciation Schedule, the Division of Solid Waste is responsible for accurate and timely input to Finance for the Schedule. In the past the Division relied on a process of responding to periodic queries from Finance for updates to the Schedule, and the Schedule was forwarded to field personnel to "check" and report back to Finance. We have changed that.

Areas of responsibility have been confirmed as follows: the Division of Solid Waste is responsible for providing timely reports to Finance for acquisition/disposal of fixed assets (timely means at the time of acquisition/disposal). This includes the submittal of supporting documentation; and Finance is responsible for timely updating the Depreciation Schedule and forwarding the same to Solid Waste. Solid Waste continues to be responsible for field verification of the Schedule. Division Program Mangers have been instructed on how to identify and report fixed assets, both verbally and in writing (see Appendix B). Additional training, is being planned for staff in the Fall.

Finding No. 5: Division Needs To Provide For Independent Confirmation Of Fixed Asset Inventory

We found neither the division nor the Department of Finance has conducted fieldwork designed to independently confirm the division's fixed assets inventory.

We conducted testing to verify the existence of assets in the custody of the division and listed on fixed asset schedules. Our testing revealed a number of discrepancies, including existing assets that were not listed on the schedule and listed assets that had been disposed of and had not been removed from the schedule. In addition to those fixed asset schedule discrepancies, there was also a lack of documentation supporting some of the asset disposal transactions.

Division and Department of Finance personnel described their working relationship with respect to fixed assets accounting as a team effort. However, the Department of Finance relies entirely on the information provided by the division to update and maintain the division's fixed asset schedules. Management officials from the Department of Finance told us they do not conduct any fieldwork to verify fixed assets inventory. Management control standards applicable to fixed asset accountability require periodic physical inventories by a non-custodian of the assets designed to verify the existence of all assets and to disclose the existence of unrecorded assets. Additionally, all transactions involving the acquisition or disposal of assets must be documented and promptly recorded.

Recommendation:

We recommend the division work with the Department of Finance to provide for periodic physical inventories of division fixed assets by someone other than the custodian of the assets. We further recommend transactions involving the acquisition and disposal of assets be tested to ensure adequate documentation exists to support the transaction.

Agency Response:

The Division concurs in part for the following reasons:

We do not concur with two of the findings: (1) that the Division does not conduct field verification of the Schedule, and (2) that standards require physical inventory by a non-custodian.

There always has been a practice of annual field verification of the fixed assets list by Project Managers. This has been routinely carried out in the Spring in response to Finance's annual query. File records show that Finance would send a fixed assets list to the Division for review, and that this list was then distributed to Project Managers at each *field station for verification and amendment. We concur that the accuracy and internal controls of the field verification need to be improved and have to that end recently instituted the following:*

First, the schedule now specifies which field site location, and thus which Program Manager, is responsible for field confirmation (and check boxes are added for initialing by the Program Manager responsible for field verifications).

Second, each Program Manager has been instructed on the proper procedure for reporting at the time of acquisition or disposal of the depreciable asset (See Appendix B). By reporting updates in this timely fashion, the field work becomes confirmatory, rather than corrective, of the schedule. This will better assure currency of the schedule, and minimize end-of-year corrections for accounting purposes.

Third, field verification inspections will be conducted semi-annually (December and June) to correspond with the ½ year convention used by Finance.

Finally, beginning June 1, all transaction documenting acquisition/disposal are transmitted to Finance through a single individual in the Division, the Senior Financial Specialist, who keeps a copy for providing an audit trail for each asset.

OIG Rebuttal:

The Division's verification was inadequate. Independent verification is necessary. We tested 56 items of equipment, machinery, and vehicles having a cost basis of $5,491,348 and found discrepancies involving 15 items (26.8%) having a cost basis of $815,600 (14.9%). Misstatements of that magnitude reflect a significant deficiency in the design or operation of management controls. Independent verification is a procedure designed to ensure management controls function effectively.

Finding No. 6: Division Needs To Collect Fees Resulting From Non-Residential Systems Benefit Charge Appeals Process

We found the division routinely does not collect all the money it is owed. Commercial customers have the right to appeal their "generator category" and "gross floor area of improvement" status which form the basis of their Systems Benefit Charge. Executive Regulation 7-98 § 2.D.5 states, "If the appeal results in a change, a revised bill will be issued. If the bill is decreased, a refund will be mailed for any overpayment. If an additional payment is due, the property owner will have thirty (30) days to pay the additional amount without interest or penalty."

Our review of 15 of 136 completed appeals for the period ending September 30, 1998 showed three appeals resulted in additional money due the County. The County did not attempt to collect this money. The value of the three uncollected appeals totaled $969. On the other hand three appeals resulted in refunds of less than $500 each. Staff told us the division has a policy of not requesting additional payments unless the amount owed is substantial, generally viewed as over $1000.

All users of solid waste services should pay their fair share. By allowing some businesses to not pay their fair share the division is in effect requiring other customers to pay more than is equitable for solid waste services.

Recommendation:

We recommend the provisions of Executive Regulation 7-98 be enforced. All underpayments should be collected.

Agency Response:

The Division concurs.

Finding No. 7: <u>Division Needs To Devise A More Timely Non-Residential Systems Benefit Charge Appeals Process</u>

We found the division has a time-consuming process for reviewing non-residential Systems Benefit Charge appeals. Businesses must file their appeals by September 30 of the billing year. Businesses which receive part-year bills have 30 days in which to file an appeal upon receipt of their bill. There is no time limit for processing appeals by the division. During FY 99, staff processed appeals pending from prior years.

In FY 98, the last year for which complete data were available, 228 of 273 appeals were granted refunding over $1.3 million. For FY 99 there were 496 appeals filed. By the end of January 1999 only 136 had been processed. Division staff estimate that a total of 175 appeals will be granted with a value of $1.75 million. The estimated total levy value is $21,000,000.

As of April not all current-year appeals were processed. An open-ended appeals process is not equitable for appellants.

Recommendation:

We recommend the division devise an appeals process which is more timely and requires deadlines for division staff to complete their work.

Agency Response:

The Division concurs for the following reasons:

Responsible review of nonresidential system benefit charge appeals is a time consuming process. The Division was not staffed to cope with the unforeseen 84% increase in appeals for the 1998 Levy Year. We now estimate at least 800 appeals for Levy Year 1999.

Only limited professional assistance was available for processing appeals until the Auditor/Accountant III position was filled in April. The Division processed all Levy Year 1998 appeals prior to the deadline of July 2, 1999 established by Finance. At the same time, the Division granted refunds this year to only 66% of the appeals filed, down from 97% previous year. The Division achieved this by diverting staff resources from other tasks as well as applying applicable criteria to serve the revenue interests of the Fund.

Division staff deadlines have been set so that after complete information is received, the appeal will be approved or denied within 30 days. We feel that these deadlines are obtainable if 60% of our new Accountant/Auditor III time and 2 full time persons are used for the appeals process for four month. We have amended the governing regulation and updated the appeals form to improve communication and understanding of the applicant. Excel worksheets have been made to assure accuracy and speed in processing.

Finding No. 8: Division Needs To Improve Computer Systems Security and Supervision

We found several division employees have access to change Systems Benefit Charge information on tax bills and are not adequately supervised. In addition, those employees sometimes share computer logon IDs. Sharing computer logon IDs blurs the audit trail and undermines management's ability to ensure that only persons acting within the scope of their authority make tax information changes.

Maintaining the integrity of computer system security and the associated audit trail are critical for management control. Management control standards require that transactions and other significant events be authorized and executed only by persons acting within the scope of their authority.

Recommendation:

We recommend the division adequately supervise the work of employees accessing the County's computerized tax database. We further recommend each employee has his or her own computer logon ID and not share that information with anyone else.

Agency Response:

The Division concurs for the following reasons:

- *We concur that some of the tax bill changes authorized to be entered into the tax billing database were not checked by a second party, and we concur with the need for a second party review. The Division accountant/auditor, a new position first filled in April 1999, will provide that second party review of all future changes.*
- *We concur that one individual shared two passwords, this has been corrected.*

Finding No. 9: Division Needs To Improve Communications With Employees

We found communication within the division needs improvement. Division employees do not take full advantage of available communication tools such as group voice mail and e-mail. Staff meetings do not occur on a regular basis for all staff.

We asked division staff about communication issues. Of the 28 current staff members we interviewed about communication issues, fourteen (50 percent) said they were poor, seven (25 percent) said communications were good, and seven (25 percent) gave a mixed response.

Effective communication is essential to good management. Communication should be more open. This would assist division management in operations and lead to better morale.

The problem has several different causes. The use of tools such as e-mail and voice mail to communicate routine matters, in particular to office staff, is poor. Memo distribution appears to be uneven, some staff commented they rarely receive general memos.

Staff meetings do not occur on a regular basis for all employees. One-on-one meetings with some staff to the exclusion of others increase the chance that some will “hear” different information, leading to confusion about directions.

Some employees told us they are discouraged from working closely with or communicating with staff other than in their immediate section and their immediate supervisor. Some employees told us they feel they can not bring problems to management’s attention without fear of retribution. Some told us they feel they cannot admit to problems without the possibility of facing public humiliation for making a mistake.

Poor communication often leads to a less effective organization. Employees work less effectively when they are not kept informed of news affecting their work. Meetings are less efficient when some necessary parties are absent. News moves more slowly through an organization when employees don’t routinely share information through meetings, e-mail or newsletter.

Recommendation:

We recommend division management include as many employees as possible in routine staff meetings. For staff units, such as the customer service staff who answer the phones or cashiers where staff needs to be at an assigned location during work hours, perhaps other accommodations can be made.

We further recommend management consider providing supervisor cashiers with pagers. This would improve communication between cashiers and supervisors. Currently when there are problems between cashiers and haulers at the scale house booth there can be a significant delay while the cashier tracks down a supervisor for dispute resolution.

We also recommend management consider instituting a formal process to inform staff of planned changes in operations, new projects, and changes in the regulatory and technological environments. When communications are in writing, a spot check of mailboxes and recipients may help ensure that all staff members receive information on routine matters. Group voice mail and e-mail messages (such as reminders about time sheets or other office management issues) are easy to use once they are installed. Senders of group e-mail messages can check to ensure that all recipients have opened the message.

Agency Response:

The Division concurs in part for the following reasons:

The Division concurs that there is always room for improvement in communications at all levels.

The Division operates a number of remote sites making routine communication more challenging and certain staff duties do not allow for flexibility during normal work hours.

The Division does not concur with the findings that there is a lack of communication existing today as indicated below:

Currently communication within the Division

- *Division has Staff Meetings held on the 2nd Wednesday of every month where 25 to 35 of the 64 compliment;*
- *The three Section Managers hold individual staff meetings on an as needed basis;*
- *The Division distributes the monthly report to every employee;*
- *35 Employees currently have E-mail, 11 employees have access to the internet, and virtually all employees have voicemail;*
- *42 employees utilize cellular phones;*
- *The two cashier supervisors have been given pagers.*

Finding No. 10: Division Needs To Examine Causes Of High Employee Turnover

We found the division has high employee turnover. Over a recent 15 month period, the division experienced an annual turnover rate of 17.5 percent. By comparison, the county as a whole experienced a turnover rate of approximately five percent during the same period. High turnover can indicate morale and other communication problems. High turnover can lead to loss of institutional memory and lowered efficiency as new staff learns the duties and responsibilities of their positions.

Recommendation:

We recommend the division examine the causes of its high turnover and find ways to reduce the level to provide solid waste services with more stable staffing.

Agency Response:

The Division concurs for the following reasons:

The Division has examined the turnover and determined the following:

1. *55% of the turnover was due to promotions (5) and retirement (1)*
2. *18% of the turnover was due to reductions in force (2)*
3. *18% of the turnover was due to requested transfers (2)*
4. *9% of the turnover was due to necessary part time work (1)*

The five employees who were promoted were all in the Administrative and Fiscal Management areas. Because of the complexity of managing the fiscal affairs and ancillary activities in the Division of Solid Waste, the high skill levels and ability to work under pressure is recognized by other Departments, and Division staff are enthusiastically recruited.

The Division has been actively trying to reduce turnover by increasing the satisfaction and challenge to its employees. Several PACE agreements have been entered into to provide opportunities for skill enhancement. There have been some internal promotions.

The Division will continue to find ways to build its team and to continually challenge and reward employees.

Finding No. 11: Division Needs To Review Travel Expenses To Ensure Compliance With County Policies

We found division management does not review travel expenses to ensure the County does not pay non-allowed travel expenses. Our review of the division's FY 98 travel records revealed the following questioned costs:

- $15 for a conference pin;
- $208 for long-distance calls not identifiable as business-related;
- $5 for a tavern bill which was part of a hotel bill paid for a day when the employee also received a per diem reimbursement;
- meal reimbursement in excess of the per diem rate for a staff member in Miami, Florida without indication that it was approved by a supervisor;

County travel regulations are found in Administrative Procedure 1-2 (Non-Local Travel Guidelines). Authorized travel is travel for official County business which has been approved by the department head or designee and for which the County will pay or reimburse reasonable and necessary travel expenses. Examples of allowable costs include airfare, hotel accommodations, local travel at the destination, and parking. According to administrative procedures local and long-distance telephone calls, faxes, and telegraph charges for other than official County business must be reimbursed. Examples of non-allowed travel expenses also include purchase of personal items such as alcoholic beverages, entertainment expenses, and expenses for the employee's family.

Receipts for hotels, transportation, conference fees, and gas and oil (if a county vehicle is used) must accompany requests for reimbursement of travel expenses. Receipts for meals and tips do not need to be submitted unless they are in excess of $35 per day. Under §4.3 of Administrative Procedure 1-2 employees may elect to request a per diem reimbursement for meals and tips in lieu of providing receipts for meals. The department director or designee may waive the per diem meal limit when employees travel to areas of high cost but must sign a receipt approving the overage.

Management controls are designed to reasonably ensure that resources are protected from waste, fraud, abuse, and mismanagement and that laws and regulations are followed. It is the department's responsibility to ensure that travel expenditures are approved and in conformance with travel regulations and the budget for travel to avoid the waste of County funds.

Recommendation:

We recommend the division review the following:

- payments for all long-distance phone calls made during travel and require reimbursement for all non-business related phone calls. Any phone expenses approved as business related should be noted affirmatively;
- payments for meals above the per diem rate for reasonableness and request reimbursement where appropriate. Any meal expenses approved above the per diem rate should be noted affirmatively.

We further recommend the division request the following:

- reimbursement for all expenses, other than tips, for which receipts are required and not provided; and
- reimbursement for any personal items purchased and paid for by the County.

Agency Response:

The Division concurs in part for the following reasons:

Travel expenses are completely reviewed by Division management. The Division Chief approves the travel request by signing the Travel Authorization Request (TAR). The travel events, in the referenced Accounts Payable document (AP's), were all signed by the Division Chief.

Expense approval procedures is as follows: within 10 days of the event the employee is required to submit the Official County Travel Voucher (CTV) with all supporting documentation and receipts to the Chief before submission to the Department of Finance. The Division Chief either approves or disapproves the expenses claimed and signs the CTV when he is satisfied that all of the expenses are legitimate. The CTV is then sent to the Department of Finance for reconciliation in the event that an advance payment had been made. The Chief examines all TAR's and CTV's. The Chief's close scrutiny does not preclude an item from getting through that he should have disallowed, but these are believed to be few. The CTV's for the seven referenced events were either signed by the Division Chief or an Acting Chief in the Chief's absence (four by the Division Chief, three by an Acting Chief)

OIG review of the Division's FY 98 travel records revealed the following questioned costs:

- *$15 for a conference pin*

Response: *This item was identified and the employee believed it was event related. As it is a "personal item" it should not have been approved and the employee has repaid the $15.*

- *$208 for long-distance (LD)calls not identifiable as business-related*

Response: *Following a review of phone bills, 'Totaling $323.02', submitted as part of travel expenses, the Division is satisfied that the system is not being abused or County Funds being wasted and is satisfied with the legitimacy of all of the local and long-distance calls claimed. The Division believes it is appropriate that an employee be allowed to call home when away for several days at the County's expense provided that the expense is kept to a minimum. It is not fraud, waste or abuse to allow employees to call home when they are away on County business. Reasonable calls home are not "expenses for the employees family." It is reasonable to consider these related expenses as official County business when an employee is away from home on business.*

The Chief is familiar with all employee's home phone numbers and most of the phone numbers the employees are calling, because he also calls these numbers, NEA, Ogden, MES, MDE, other Divisions and Departments, and the myriad of private contractors and consultants.

A review showed the following:

Number of Travel Events:	*7*
Number of Employees:	*7*

# Business LD calls (other than to DSWS)	*=*	*20*
Total Cost of Business LD (other than to DSWS)	*=*	*$143.62*
Average Cost of Business LD calls	*=*	*$7.18*
# Business LD calls to DSWS / COUNTY	*=*	*22*
Total Cost of Business LD to DSWS / COUNTY	*=*	*$134.41*
Average Cost of Business LD calls to DSWS	*=*	*$6.11*
# Home LD calls	*=*	*9*
Total Cost of Home LD calls	*=*	*$44.99*
Average Cost of Home LD calls	*=*	*$4.99*

Total Trip Days	*=*	*36*
Number of Events	*=*	*7*

Avg cost/day for Business calls (other than County)	=	*$3.99*
Avg cost/day for Business to DSWS / County	=	*$3.73*
Avg cost / day for employee calls home	=	*$1.25*

Although not a cost-effective exercise on phone billings the above confirms that the county resources are being adequately protected by the controls in place within the Division of Solid Waste Services.

- *$5 for a "Tavern" bill which is part of a hotel bill paid for a day when the employee also received a $35 per diem reimbursement*

  Response: *The employee, who only billed $30 as the per diem rate (for four days) instead of the $35 allowed, he was entitled to reimbursement of $140 instead of the claimed $120. -As it was, the tavern bill should not have been approved and the employee has reimbursed the County the $5.00.*

- *($12.52) meal reimbursement in excess of the per diem rate for a staff member in Miami Florida without indication that it was approved by a supervisor.*

  Response: *The staff member opted to charge three of the four days at the per diem rate without receipts although the meal and tips were exceeding the $35. On one of the four days when he obtained receipts he charged $12.52 more than the $35 per diem rate. The Chief believed it was a reasonable request and although the Chief did not sign the receipt authorizing the increased expenditure the Chief believed that by approving the total expense voucher he was in fact approving the $12.52 in compliance with requirements.*

  IN SUMMARY: The Division believes its current record review procedures are adequate.

  Concur with the following:
  - *The $15 emblem and $5.00 tavern bill are personal items and the employees have reimbursed the County.*

  Does not concur with the following:
  - *$208.00 Phone Bills = all justifiable charges*
  - *$12.52 meal extra over per diem = deemed permissible*

OIG Rebuttal:

The current non-local travel regulation states "[O]fficial local and long-distance telephone calls, faxes, and telegraph charges are reimbursed for official County business only." (Emphasis added.) The division should either comply with the regulation or work with County administration to amend it.

Finding No. 12: Division Needs To Review Employee Use of Telephones

We found division employees are not aware of written policies and procedures concerning personal use of County telephones and do not routinely review division phone bills. Phone bills were not distributed to employees for review and reimbursement for personal phone calls during calendar year 1998.

We reviewed a sample of division phone bills for fiscal years 1998 and 1999. Our review showed personal, long distance calls were made by employees without reimbursement to the County. Additionally, our review showed that one division employee called a local radio station over 1,000 times in one month. During two other months the employee made over twenty other calls to the same radio station.

A cover memorandum from the Department of Information Systems and Telecommunications ("DIST") that accompanies the division's monthly phone bill references a chief administrative officer ("CAO") memorandum dated June 25, 1997 outlining the proper use of County telephones. The DIST memorandum states that phone bills "…are internal documents to be utilized pursuant to the CAO's memo and your Department's policies and procedures." The CAO memorandum offers excellent, cost effective guidance regarding County policy and the responsibilities of various agencies and individuals in carrying out that policy.

Effective management controls covering the use of County telephones for personal purposes require written procedures and timely review of bills by employees. It is the division's responsibility to ensure that telephone expenses are for legitimate County business or are reimbursed according to County regulations.

Recommendation:

We recommend the division ensure the policy outlined in the CAO memorandum is enforced. We further recommend division management review phone bills on a monthly basis.

2. FINDINGS AND RECOMMENDATIONS (Continued)

Agency Response:

The Division concurs in part.

The Division does not concur with the findings that we do not have written policies and procedures concerning the personal use of County telephones. The Division received, in June 1997, the telephone policy issued by the CAO. Upon receiving the policy the Division distributed the memo and posted it on announcement boards on the 6th floor. Since that time and continuing until March 1999, the Division referenced that policy as the recommended policy the Division adheres to concerning the personal use of County telephones. However, after careful review, the Division reaffirmed the telephone usage policy for personal use of County provided phones in March 1999.

The Division concurs with the findings that we did not routinely review and distribute Call Accounting Reports to employees and supervisors. Although the reports were looked over by a staff member, they were not distributed, but filed for record keeping. As stated in the above paragraph as of March 1999, the Division reaffirmed the telephone policies and procedures concerning the personal use of County telephones. The Division will ensure that reports are reviewed for reasonableness and proper distribution occurs within 10 business days upon receiving the report, that employees determine whether or not their calls were personal or business related and respond accordingly, and verify business calls and provide reimbursement for non-business related toll calls. With each report, we distribute payment instructions, and a copy of the report remains on file (See Attachment). We request that once payment is made, a copy of the stamped receipt be returned to the Division. In addition, annually, each employee will receive a copy of the CAO's and the Division's written policy and any applicable regulation addressing this issue.

The Division concurs with the findings that a Division employee called a local radio station over 1,000 times in one month. We investigated and found that the employee repeatedly used redial to attempt to enter a radio station contest. The employee has admitted to this, apologized in writing and compensated the County by forfeiting an amount of leave that is conservatively estimated to equal the time spent using the phone. The above noted phone policies will also address abuse of local calling.

Finding No. 13: Division Needs To Ensure Employees Reimburse County For Personal Telephone Calls

We found division employees made personal calls and did not reimburse the County. We asked for all phone bills for fiscal year 1998. We received eleven months of phone bills for telephones located in the Executive Office Building ("EOB") and six months of bills for phones at the Transfer Station and for cellular service. We observed the following:

- During one month (for which we performed a detailed review), 48 calls were made from EOB telephones to long-distance home telephone numbers of division employees;

- During four months covering the summer, 26 long distance calls were made from one phone in the EOB to four phone numbers in Rehoboth, Del., Ocean View, Del., and Lewes, Del.;

- During eleven months, 21 international calls were made from EOB telephones to Viet Nam, the United Kingdom, Mali, Sierra Leone, Germany, and St. Kitts; and,

- During six months, eight international calls were made from transfer station telephones to Canada and Gambia.

We found only one instance of employee review of a phone bill and reimbursement for personal calls. This was for a cellular phone bill.

All telephone bills should be routinely routed to employees for review as soon as they are received in the division. Because there is no policy in place within the division concerning phone use, there is no routine reimbursement process.

Recommendation:

We recommend the division ensure management and employees review phone bills to identify personal calls and to ensure reimbursements are made where appropriate. We further recommend the division work with DIST staff to explore blocking:

- long distance access on phones in areas accessible to the general public;
- international call access on all but essential telephones; and
- "900" call access from all phones.

Agency Response:

The Division concurs for the following reasons:

The employees made personal calls and did not reimburse the County, however the Division has since distributed the call account detail reports and Division employees have reimbursed the County.

The employees made long distance calls home and did not reimburse the County with the following explanation. Routinely, managers work extended hours to meet deadlines on particular projects. These same managers live outside the local calling areas. Managers have informed the Division they call home to check on family members and inform family *members that they intend to work late hours. We do not believe it is reasonable to require reimbursement for such calls. The call account detail report has been distributed and Division employees reimbursed the County of other calls.*

1. *The Division concurs that employees made personal international calls and did not reimburse the County. Reports have since been distributed and Division and employees have reimbursed the County.*
2. *The Division performed a detailed review that revealed the following:*

Operator Assisted Calls – No Charge to County

Country	***No. of Employees Calling***	***No. of Calls***	***$ Cost***	***Description***
Vietnam	*1*	*6*	*$0*	*No charge*
Germany	*1*	*1*	*$0*	*No charge*

Charges Billed To The County For International Calls – Business Related

Country	***No. of Employees Calling***	***No. of Calls***	***$ Cost***	***Description***
Canada	*1*	*6*	*$6.54*	*Blue Bin supplier/Transfer Station*
United Kingdom	*1*	*7*	*$7.07*	*Business faxes*
Total	*2*	*13*	*$13.61*	
Average cost per call			*$1.05*	

Charges Billed To The County For International Calls – Personal

Country	***No. of Employees Calling***	***No. of Calls***	***$ Cost***	***Description***
Sierra Leone	*1*	*16*	*$77.43*	*Death of employees sister*
Germany	*1*	*2*	*$6.10*	*Family relocation*
Gambia	*1*	*2*	*$2.52*	*Mother had stroke*
Mali	*1*	*1*	*$2.06*	*** Unidentified employee*
St. Kitts	*0*	*0*	*$0*	*Not identified*
Totals	*4*	*21*	*$88.11*	*All reimbursed except $2.06 and unidentified St. Kitts call*
Average cost per call			*$4.20*	

Note: Calls to Sierra Leone by one employee accounted for 16 of 21 calls (76%), and 88% of the cost.

Based on the Division's review, the total cost of personal international calls from the 6th floor of the EOB and the Transfer Station are $85.59 and $2.52. While it is reasonable that such calls occurred, the call account detail reports has been distributed and Division employees have reimbursed the County. The Division will also do the following:

- *Install blocks on in - house telephones so that international calls can only be made from telephones designated by the Division Chief .*
- *As part of the annual review process, employees will be briefed on the Division's telecommunications systems policy.*

The employees made calls to locations on the Delaware shore. There were 26 calls made to four phone numbers for $10.89 and the County was not reimbursed. Reports have since been distributed along with payment instructions and Division employees reimbursed the County.

2.2 Procurement Practices.

Has division management followed sound practices with respect to procurement of contracts for various services? Our findings with respect to procurement issues (**Finding Nos. 14 – 20**) question costs associated with the year-end purchase of vehicles and equipment; show a need to consider alternatives to public entity contracts, provide better documentation, and ensure more oversight of procurement decisions; and; show a need to improve supervision of contractors, and collect liquidated damages in a more timely manner.

The general presumption is that procurement activities should be conducted in an open and competitive manner to insure the County receives the best value. To that end, the County code and procurement regulations lay out several contract source selection methods designed to encourage open and fair competition. At the same time the regulations also recognize that occasionally it may be in the best interest of the County to procure goods and services through a non-competitive process. Under certain circumstances procurement laws authorize public entity contracts. A public entity procurement is defined as "an agreement to acquire or use any goods, services, or construction with a public entity upon terms and conditions considered to be in the best interest of the County as determined by the Director [of procurement]." A public entity procurement does not require public solicitation, but the cost effectiveness of the proposed procurement is among the factors to be considered in determining what is in the best interests of the County.

We reviewed division procurement transactions. We noted that public entity agreements have been executed with Maryland Environmental Service ("MES"), an entity created by the State of Maryland. Under three contracts currently in effect, MES provides services to the division at the recycling center, the transfer station, and the composting facility. These contracts were solicited by the division and the terms and conditions of the contracts were negotiated by division management. Each was originally a one-year contract with an option to renew on an annual basis for additional periods of three to five years. Each contract has been renewed annually. In addition, each contract has subsequently been modified to substantially increase the cost of the contract. Each contract was entered into without competition. Neither the original contracts nor any of the contract modifications have had the benefit of further substantive review by the CRC. Officials of the Office of Procurement acknowledge relying almost exclusively on the judgement of division management that these public entity contracts were in the best interest of the County. Total payments on the three contracts exceed $14 million.

Finding No. 14: Questioned Costs ($490,000) – Division Needs To Comply With Procurement Regulations In Year-End Purchases Of Equipment

We found the division failed to comply with County procurement regulations in the purchase of equipment having an aggregate value of $490,000. In circumvention of procurement regulations, the division directed a service provider under contract to the division to purchase the equipment. The division then reimbursed the contractor the purchase price of the equipment through regular monthly payments issued under the contract.

At the end of FY98, the division determined there were “excess” funds previously encumbered under the contract with the Northeast Maryland Waste Disposal Authority (the “Authority”) for the operation of the Resource Recovery Facility. The division decided to spend a portion of the “excess” funds to purchase several pieces of equipment, including two sweeper trucks and two flusher trucks. The cost of the four trucks was approximately $490,000.

The division directed and controlled the procurement of the trucks, using County funds and operating completely outside the County’s budgeting and procurement systems. The division informally identified vendors, evaluated different truck models and prices, and decided what trucks to purchase. The division then directed the Authority to purchase the trucks that it had selected. The Authority had one of its subcontractors purchase the trucks. Title, registration, and licensing of the trucks are in the name of Montgomery County. The division subsequently reimbursed the Authority for the purchase of the four trucks.

County procurement regulations are found in Regulation No. 15-94AM (Code of Montgomery County Regulations). The procurement regulations have been enacted to govern procurement activities by the County and to provide consistency and uniformity to the procurement actions of County agencies and departments. The procurement process in the County is based on the principle that the County obtains best value through open competition for the acquisition of goods and services. The manner in which the division procured the two flusher trucks and the two sweeper trucks violated County procurement regulations.

Management controls are designed to reasonably ensure that programs and resources are protected from waste and mismanagement and that laws and regulations are followed. General standards require competent personnel who exhibit professional integrity and understand the importance of following laws and regulations. The County procurement regulations are an important management control governing the procurement process.

The deliberate circumvention of procurement regulations makes the costs of these purchases "questioned costs." A questioned cost is a cost that is questioned by this office because of an alleged violation of a provision of a law, regulation, contract, grant, cooperative agreement or document governing the expenditure of funds; a finding that, at the time of our investigation, such cost was not supported by adequate documentation; or a finding that the expenditure of funds for the intended purpose is unnecessary or unreasonable. In addition, an end-of-year "shopping spree" using operating funds to purchase capital equipment is wasteful and constitutes an abuse of the budgetary process.

Recommendation:

We recommend the Department of Public Works and Transportation:

- review procurement requests initiated by the division to ensure compliance with County procurement regulations;
- review and approve all proposed end-of-year purchases of capital assets requested by the division;
- review and approve all proposed acquisitions of capital assets purchased through contractors; and,
- establish a mechanism through which employees can notify department-level managers directly of suspected wasteful procurement actions.

Agency Response:

The Division does not concur for the following reason:

The Department does not concur. Under authority of Section 48-44(b) of the Montgomery County, Code, the County has entered into a Waste Disposal Agreement ("WDA") with the Northeast Maryland Waste Disposal Authority (the "Authority") to construct the Resource Recovery Facility and operate and maintain the facility and the Transfer Station. The WDA was reviewed and approved by the County Council prior to *its execution. Section 2.3 of the WDA requires the Authority to operate and maintain the Facility and Transfer Station Improvements in accordance with both applicable law and sound solid waste management practices. The Authority is then paid for the services that it provides pursuant to a formula that includes reimbursement for operating costs of the Authority. The Authority, with the express concurrence and involvement of both branches of County government, issued a request for proposals pursuant to State procurement law and regulation for a service provider to satisfy the Authority's anticipated obligations. With the blessings of the then County Council and County Executive, a Service Agreement was ultimately approved with the current operator of the Resource Recovery Facility and Transfer Station.*

Section 7.15 of Schedule 1B to the Service Agreement required the provision of one mobile sweeper at the Transfer Station. Section 7.38.1 of Schedule 1A to the Service Agreement required the provision of one mobile sweeper at the Resource Recovery Facility. Following commencement of operation of the Resource Recovery Facility and the increased operations at the Transfer Station, it became apparent that the equipment initially required in the Service Agreement did not leave the facilities clean enough. For that reason, and in accordance with sound solid waste management practices, the Authority was directed by the County to issue change orders for both additional sweepers and flusher trucks to attain sound solid waste management and environmental standards at the facilities operated by the Authority on behalf of the County.

During the development of the Service and Waste Disposal Agreements ten years ago, it was acknowledged that equipment changes might be necessary over the course of these twenty-year contracts. This acknowledgment resulted in provisions being included in the agreements to accommodate this situation. The provision of the four trucks used for operations at the Transfer Station and Resource Recovery Facility and the payment of the operating costs thus incurred was squarely within the contemplation of the WDA and the Service Agreement. The hands-on management maintained by the Division was proper, efficient management and is to its credit.

The fact that the sweeper and flusher trucks are used at the Resource Recovery Facility and at the Yard Trim Compost Facility ("Compost Facility") is a matter of efficiency and practicality. It would be indeed wasteful and abusive for MES and Ogden to purchase separate equipment for each facility. By utilizing the equipment at both sites, the Division saves the cost of additional equipment and personnel. Additionally, the Compost Facility is maintained in a proper manner. In fact, use of this equipment at the Compost Facility may save the County over $1.5 million for an engineered solution to the NPDES permit problem at the Compost Facility. Since commencement of use of this equipment, discharges from storm water ponds at the Compost Facility have been below NPDES permit levels.

At the time the equipment purchases were made, the Department researched and justified that the prices for the equipment were fair and reasonable. Negotiations were further successful in eliminating contractor markup under the Service Agreement, a savings to the County of in excess of $33,000.00.

In sum, the Department acted in accordance with approved contracts; the equipment was wholly within the scope of the Contract; the reimbursement for the equipment was also within the terms of the contract; and the use of the equipment at multiple sites is both cost efficient and environmentally sound.

OIG Rebuttal:

The division completely controlled the purchase of the equipment without following County procurement policies. It did not solicit competitive bids, nor did it receive a waiver from procurement regulations. Also, the contractor the division chose to purchase the equipment did not follow a competitive bid process.

Finding No. 15: Division Needs To Consider Alternatives To Non-Competitive Public Entity Contracts

The division relies heavily on public entity contracts for the procurement of important services. These public entity contracts are not negotiated through an open, competitive process. We reviewed a sample of contracts and noted that during the audit period the division has entered into three public entity agreements with Maryland Environmental Services ("MES") totaling to date $14,557,280 (**see: Table 4**).

Table 4.

SELECTED PUBLIC ENTITY CONTRACTS

Contract/Facility	Initial Date Of Contract	Original Contract Amount	Total Contract Amount	Contract Modifications
Composting Facility	Oct. 5, 1995	$1,867,840	$ 5,103,390	3
Transfer Station	Aug. 29,1995	$ 712,810	$ 3,358,190	4
Recycling Center	Apr. 16, 1997	$2,653,717	$ 6,095,700	7
Total		**$5,234,367**	**$14,557,280**	**14**
Source: OIG Analysis of Office of Procurement data.				

The public entity procurements with MES were initiated by the division and the agreements were put into effect without any additional substantive outside review. The Office of

Procurement processed the agreements but relied entirely on the division's judgement in deciding to execute the MES agreements. Within the division, the decision to engage the services of MES has been made primarily by the division chief, with input from the appropriate program manager.

The County has paid MES over $14.5 million on these three contracts, with additional millions to be paid in the future. For example, payments on the contract for the operation of the Recycling Center, which does not expire until June 30, 2002, will exceed $10 million dollars.

Public entity procurements are authorized by County procurement regulations and can be an appropriate means of service acquisition when they are in the best interest of the County. However, when one public entity receives multiple contracts for multiple years costing millions of dollars and those services are also available from the private sector, we question whether the division is making a conscientious effort to follow the intent of the County procurement process regarding open competitive procurements.

Management controls are designed to ensure that resources are protected from waste and that laws and regulations are followed. General standards require that managers maintain and demonstrate a supportive attitude toward management controls at all times. The County procurement process, which is based on the concept of open competition, serves as a management control to ensure that financial resources are protected from waste.

The objectives of the procurement function of the County are integrity, efficiency, cost, and best value. The preferred means of achieving those objectives is through an open, competitive procurement process. A competitive source selection method is the preferred procurement process and "using" departments (County agency engaged in a procurement transaction) should strive to acquire goods and services through a competitive process whenever possible. Procurements acquired through non-competitive means should be the exception rather than the rule.

Recommendation:

We recommend the division review policies and procedures regarding procurement activities to ensure that managers appreciate the importance of an open and competitive procurement process. Further, with regard to existing public entity contracts, the division should:

- conduct an independent review to ensure the contracts are in the best interest of the County;

- review the negotiation process to ensure compensation is fair and reasonable; and,

- explore private sector alternatives when public entity contracts expire.

Agency Response:

The Division does not concur for the following reasons:

We believe the three referenced agreements are in the best interests of the County.

The Montgomery County Code and the County's procurement regulations provide for the use of public entity agreements. The code and the regulations do not address any limit on the number of these agreements that can be used. The use of these public entity agreements, as defined by the code and regulations, must be in the best interest of the County.

The following jurisdictions also make use of MES Solid Waste Services either directly or indirectly on a continuing basis because it is in their best interest to do so. These are:

- *Baltimore City*
- *Baltimore County*
- *Dorchester County*
- *Harford County*
- *Anne Arundel County*
- *Caroline County*
- *Howard County*
- *Kent County*
- *Talbot County*
- *Prince Georges County*

This provides the MES with extensive experience in operating many, complex solid waste programs. Montgomery County has benefited from MES's "regional connections." When the County's MRF experienced severe electrical problems and equipment malfunctions and could no longer accept in coming recyclables at the Transfer Station, MES received approval from Baltimore County to ship material for processing to the Baltimore County's facility.

MATERIALS RECOVERY FACILITY (MRF) – Recycling Center

- *Before the division decided to engage MES to operate the MRF an analysis conducted in coordination with the County's Office of Management and Budget concluded that an MES operation would be less expensive compared with MES's previous sub-contractor.*
- *Revenues from the sale of recyclable plastic, aluminum and containers, etc. processed at the MRF totaled approximately $2.2 million in FY98 and FY99. The County, under MES's direct operation, receives 100% of revenues, previously the County received 75% of the revenues.*
- *The potential to receive an increase of approximately $550,000 in additional revenues was in the County's best interest.*

- *MES is used to operating facilities to the high standard demanded by the Division of Solid Waste Services. Whereas the previous private sub-contractor was resistant to requests for improved maintenance. MES is responsive and has already restored the MRF to a high quality facility.*

COMPOST FACILITY OPERATION

- *MES has a national and international reputation as an authority on both sludge and yard trim composting. In the late 1970's and early 1980's, MES assisted the U.S. Department of Agriculture Scientists at Beltsville in the development of large (400+ tons per day) and small (5+ tons per day) windrow and static pile composting systems now used world-wide.*

- *MES's history and experience operating successful compost facilities is very valuable to Montgomery County (there have been many successful compost operations throughout the US).*
- *MES's marketing experience with "compro" sludge compost is benefiting Montgomery County's "LeafGRO" yard trim compost.*
- *MES submits detailed budget requests annually and these are scrutinized carefully before any recommendation is made for inclusion in the DSWS Budget.*

PUBLIC UNLOADING FACILITY

- *By 1995, major construction and operational changes had occurred at the Transfer Station to accommodate the rail transportation system to and from the Resource Recovery Facility.*

- *In an effort to improve efficiency and customer service, MES and OGDEN were asked to provide proposals for operation of the Public Unloading Facility instead of continuing operations with County staff.*
- *MES's proposal was acceptable to the County and an intergovernmental agreement was signed. Customer satisfaction improved immediately.*

We believe it is in the best interest if the County to contract with MES for the above services.

Finding No. 16: <u>Division Needs To Ensure Documentation To Support Determination That Public Entity Contracts Are In "Best Interest Of County"</u>

We found a lack of documentation to support a determination required to be made by the director of procurement, that the terms and conditions of public entity contracts between the County and MES were in the best interest of the County.

The contracts were executed under procurement regulations governing public entity procurements. The Montgomery County Code (§11B-41) authorizes the County to enter into a contract with a public entity without competition when it is in the best interest of the County. The County Procurement Regulations (§ 4.1.14.1) elaborate on public entity contracts by requiring "terms and conditions considered to be in the best interest of the County as determined by the Director" (emphasis added).

We conducted a review of contract files maintained by the Office of Procurement. The files do not contain any documentation indicating the director made a determination that the terms and conditions of the contracts were in the best interests of the County. A management level employee of the Office of Procurement told us the determination that the procurement is in the best interest of the County is left to the using department. Because public entity contracts are entered into without competition, the requirement that the director determine that the terms and conditions of the contract are in the best interest of the County serves as an important check and balance in the procurement process. The role prescribed for the Office of Procurement is a management control designed to ensure that a request made by a using department is appropriate and in the best interest of the County.

Management controls are designed to ensure that all laws and regulations are followed. Specific controls require significant events to be clearly documented and the documentation is to be readily available for examination. When the County enters into a public entity contract without competition the determination by the director that the terms and conditions of the contract are in the best interest of the County is a significant event and that determination should be clearly documented.

Recommendation:

We recommend the division work with the Office of Procurement to ensure timely documentation of all procurement transactions and significant events related to a public entity contract, including a written determination by the director of procurement that the terms and conditions of the public entity contract are in the best interest of the County.

Agency Response:

The Division does not concur for the following reasons:

- *Public entity contracts (Intergovernmental Government Agreement – IGA) are only entered into when the Director of Procurement makes a determination that a contract is in the best interest of the County.*

- *The Division does not concur that there was a lack of documentation to the Director of Procurement (see Appendix B). The Director relied on the justifications contained in the above memorandums.*

OIG Rebuttal:

While it may be implied that the director of procurement made the required determination because the contract was executed, the better practice would be for the director to make a written record to explicitly document the required determination each time a contract is executed, amended, or modified.

Finding No. 17: Division Needs To Ensure Documentation To Support Determination That Public Entity Contract Cost And Price Data Are "Reasonable"

We found a lack of documentation to support a determination required to be made by the director of procurement, that contract cost and price data for public entity contracts between the County and MES were reasonable.

County Procurement Regulations (§10.5.1.2) require contractors to submit cost and price data to the County for certain types of negotiated contracts, including non-competitively negotiated contracts valued at over $50,000. The regulations (§10.5.4) also require the director of procurement make a determination as to the reasonableness of the cost and price data submitted.

We conducted a review of contract files maintained by the Office of Procurement. The files do not contain any documentation indicating the director made a determination as to the reasonableness of the cost and price data submitted. Because public entity contracts are negotiated without competition, the requirement that the procurement director determine the reasonableness of the contract cost and price data serves as an important check and balance in the procurement process. The role prescribed for the Office of Procurement is a management control designed to ensure that the County is receiving the best value for its money.

Management controls are designed to ensure that all laws and regulations are followed. Specific management controls require significant events to be clearly documented and the documentation is to be readily available for examination. When the County negotiates a public entity contract without competition the determination by the procurement director regarding the reasonableness of the cost and price data of the contract is a significant event and the determination should be clearly documented.

Recommendation*:*

We recommend the division work with the Office of Procurement to ensure timely documentation of all procurement transactions and significant events related to a public entity contract, including a written determination by the procurement director regarding the reasonableness of cost and price data.

Agency Response:

The Division concurs for the following reasons:

Funding was first provided to the Office of Procurement for a cost and pricing analyst in FY97. The three contracts noted in this observation were signed either before the Office of Procurement had an analyst or in the first several months that this position existed.

Finding No. 18: Division Needs To Ensure More Oversight Of Public Entity Contract Approval And Modification Processes

We found more oversight is needed in the initial contract approval and subsequent contract modification processes pertaining to public entity contracts.

Initial Contract Approval

Procurement regulations do not specify the role of the Contract Review Committee ("CRC") in initially reviewing and approving public entity contracts. The County may enter into a contract with another public entity when it is considered to be in the best interest of the County as determined by the director of procurement. A public entity procurement does not require public solicitation. Authority to issue a public entity contract rests with the procurement director.

Officials in the Office of Procurement told us that they rely heavily on the recommendation and judgment of the using department when approving public entity contracts. In practice, the Office of Procurement defers to the using department in the determination that such an agreement is in the best interest of the County and that the terms, conditions, and cost of the contract are fair and reasonable.

The public entity procurement process is very similar to a non-competitive procurement process -- both processes are conducted without public notice and without competition. In a practical sense, public entity contracts are also comparable to sole-source contracts. The procurement regulations include controls over the non-competitive procurement process designed to protect the integrity of the procurement system and to ensure the County receives the best value. One control is the requirement that non-competitive sole-source contracts valued at over $25,000 be reviewed and approved by the Contract Review Committee. Notwithstanding the distinction the procurement regulations make between public entity contracts and non-competitive contracts, the similarities in the procurement processes are clear.

Public entity procurements are an acceptable means of service acquisition authorized by the County procurement regulations when it is in the best interest of the County. However, County policy appears to be inconsistent when it requires CRC review and approval for non-competitive sole-source contracts valued at more than $25,000 but does not require the same degree of oversight for public entity contracts valued in the millions of dollars that are negotiated in a comparable process. When it comes to protecting the integrity of the procurement system and ensuring the County receives best value, more oversight is better than less oversight.

Subsequent Contract Modifications

Contract modifications to existing division public entity contracts were not presented to the Contract Review Committee for review and approval. We reviewed three contracts executed on behalf of division programs and activities (**see: Table 4, p. 46)**. The services of the contractor were acquired under the provisions of the County Procurement regulations pertaining to public entity contracts.

The first contract was executed on October 2, 1995. The original contract amount was $1,867,840. Subsequently, the following modifications or amendments amounting to173% of the original amount of the contract were processed:

Date	Modification	Price Change
June 28, 1996	Modification #1	$1,281,703 increase
July 3, 1997	Modification #2	$1,653,847 increase
June 11, 1998	Modification #3	$ 300,000 increase
	***Total*:**	**$3,235,550**

The second contract was executed on August 29, 1995. The original contract amount was $712,810. Subsequently, the following modifications or amendments amounting to 367% of the original amount of the contract were processed:

Date	Modification	Price Change
Aug. 15, 1996	Modification #1	(change in date of service)
Oct. 28, 1996	Modification #2	$ 653,847 increase
Aug. 28, 1997	Modification #3	$ 983,077 increase
Aug. 26, 1998	Modification #4	$ 976,804 increase
	***Total*:**	**$2,613,728**

The third contract was executed on April 16, 1997. The original contract amount was $2,653,717. Subsequently, the following modifications or amendments amounting to 130% of the original amount of the contract were processed:

Date	Modification	Price Change
Dec. 16, 1997	Modification #1	$ 11,000 increase
May 21, 1998	Modification #2	$ 4,500 increase
June 12, 1998	Modification #3	$ 355,000 increase
Aug. 7, 1998	Modification #4	$2,523,960 increase
Dec. 30, 1998	Modification #5	$ 79,334 increase
Apr. 5, 1999	Modification #6	$ 5,000 increase
Apr. 26, 1999	Modification #7	$ 463,189 increase
	***Total*:**	**$3,441,983**

The County has executed fourteen (14) contract modifications totaling $9,291,261 or 178% of the original amount of $5,234,367 for the three contracts. All modifications were made without CRC review and approval. We note some of the contract modifications did not exceed the threshold amounts specified in the procurement regulations triggering CRC review and approval. However, in reviewing the totality of the circumstances under which the County has modified these public entity contracts, particularly the lack of an open and competitive negotiation process, we believe that here also more oversight is better than less.

The definition of contract modifications includes: "Any documented alteration in the specification, delivery, contract period, price, quantity, or other contract provisions of any existing contract" and "notices of exercise of a contract option and contract extension." Authority to review and approve contract modifications is also vested in the director of procurement, unless the modification exceeds the threshold for an IFB or RFP (i.e. $25,000) in which case the director must refer the modification to the CRC for review and approval. The regulations also specifically authorize the CRC to approve all change orders or amendments to a contract valued above the threshold for an IFB or RFP (i.e. $25,000).

Management controls are the policies and procedures of an organization designed to reasonably ensure that programs and resources are protected from fraud, waste, and abuse. General standards include reasonable assurance that the objectives of the organization will be accomplished and that control techniques designed to assure the effective and efficient accomplishment of objectives are in place. The County has established clear objectives for its procurement process. Protecting the integrity of the process is of paramount importance. The Contract Review Committee serves an important management control function designed to provide oversight to the procurement process. The CRC should review and approve significant public entity contracts and modifications to those contracts in order to maintain the integrity of the procurement process.

Recommendation:

We recommend the division review policies and procedures regarding the use of public entity contracts and request all public entity contracts and all substantive contract modifications valued above the threshold for an IFB or RFP be referred to the CRC for review and approval.

Agency Response:

The Division does not concur for the following reasons:

The Contracts and modifications cited in the report are related to public entity contracts. Montgomery County Code Section 11-B41 and it predecessor Section 11-B42 exempt public entity contracts from CRC review (See Appendix B).

OIG Rebuttal:

Good public policy demands more oversight rather than less when public money is being spent. Review and approval of the division's public entity contracts by the Contract Review Committee would provide cost-effective oversight and help reassure the public that the County is receiving the best value for its money.

Finding No. 19: Division Needs To Improve Supervision Of Contractor Compliance With State Permit Requirements

We found the division failed to adequately supervise the activities of the contractor operating the Dickerson Composting Facility in May 1998 with regard to the discharge of stormwater from collection ponds.

In May 1998, MES, operating the Dickerson Composting Facility under contract to the County, violated the terms, conditions, and requirements of its State of Maryland discharge permit. The violations consisted of impermissible discharges of water from a stormwater management pond at the facility on six days. The stormwater runoff collected in the holding ponds at the facility has periodically exceeded effluent limitation standards. In an effort to determine the cause of the problem and to implement corrective action, the division decided to remove a portion of the water in one of three ponds in order to measure solids that had accumulated on the bottom of the pond. According to a division manager, the division relied on MES to develop the appropriate procedures to accomplish the plan. Neither the division nor MES notified the Maryland Department of Environment ("MDE") about the plan to pump the water from the holding pond. MES proceeded to pump the water out of the pond and onto adjacent ground. The water eventually entered a nearby stream.

MDE ruled that MES violated provisions of its discharge permit and imposed a monetary fine. The County, as owner of the facility, and MES, as operator of the facility, entered into a consent agreement with the State. The consent agreement imposes certain reporting requirements on the County and certain operating requirements on MES.

2. FINDINGS AND RECOMMENDATIONS (Continued)

Management controls include policies and procedures designed to reasonably ensure that program activities comply with all laws and regulations. Specific control standards require qualified and continuous supervision to ensure that management control objectives are met. The County and the division have a legal and ethical obligation to ensure that program activities comply with all laws and regulations. The division is accountable for the actions of its contractors and in matters of a sensitive nature, such as compliance with environmental regulations, the division must exercise the highest degree of vigilance in supervising and monitoring contractor actions to ensure that contractors adhere to all environmental and regulatory requirements.

Recommendation:

We recommend the division review its policies and procedures to ensure adequate supervision of contractors by division managers and to ensure routine review and confirmation by division managers that contractors are in compliance with regulatory permits and licenses.

We further recommend, specifically with regard to the MES-Compost Facility contract, that the division review its policies and procedures to ensure the following:

- compliance with the MDE Consent Agreement;
- division managers review with MDE officials all proposed program activities that are governed by MDE regulations; and,
- division manager have access to technical consultants, if necessary, to evaluate contractor activities.

Agency Response:

The Division does not concur for the following reasons:

MES, as the holder of the National Pollution Discharge Elimination System (NPDES) permit for the Dickerson Yard Trim Compost Facility is required to operate at all times within the limits set.

The violation of the system (NPDES) permit was a technical violation and not a result of inadequate supervision of the contractor. If the stormwater had been pumped through the outfall riser instead of being discharged across the area adjoining the outfall, MES's actions would not have been a violation.

The error resulted from miscommunication between MES staff internally. The MES regulatory compliance expert undertook to communicate with MDE by letter but the project manager failed to understand this had to be done prior to pumping.

Clearly this incident was a result of miscommunication within MES. MES took responsibility for their error and worked closely with the County and MDE to resolve the issue.

The County prides itself on managing all facilities within permit/environmental parameters and the Division does not believe this incident was a result of inadequate supervision of the contractor.

Finding No. 20: Division Needs To Assess And Collect Liquidated Damages From Trash Collection Contractors In A More Timely Manner

We found the division needs to assess and collect liquidated damages from trash collection contractors in a more timely manner.

The division contracts with several trash collection companies to pickup residential waste and recyclable materials in various areas of the County. The contracts permit the County to assess liquidated damages against the contractor for violations of the terms and conditions of the contract. For example, liquidated damages are typically assessed if a contractor fails to pickup residential trash in the assigned collection area. Violations carry either a $10 or $50 assessment per incident depending on the nature of the violation. The assessments are tabulated on a monthly basis. The County "collects" assessed damages from a contractor by adjusting contract payments made to the contractor each month. Adjustments or reductions to contractor payments for violations are generally made in the month following the violation.

We reviewed the records maintained by the division pertaining to the assessment and collection of liquidated damages for fiscal years 1997 and 1998. Overall, the records reflect that most liquidated damages assessed on contractors were collected in a timely manner, i.e. as an adjustment to payment issued to the contractor in the month following the assessment. However, we noted two instances where the adjustment was not made in a timely manner.

First, the division did not collect liquidated damages in the amount of $1,300 from a trash collection contractor. The uncollected damages were assessed against the company in January and February 1997. We noted the division assessed one contractor a total of $2,750 in liquidated damages (33 violations at $50 and 110 violations at $10) in January 1997. However, no adjustments were made to the monthly payment sent to the contractor the following month. In February 1997, the same contractor was assessed an additional $1,700 in liquidated damages (ten violations at $50 and 120 violations at $10). At that point, the total uncollected liquidated damages due from the contractor totaled $4,450. In March 1997, an adjustment for liquidated damages in the amount of $3,150 was made to the payment sent to the contractor; leaving an uncollected balance of $1,300. No subsequent adjustments were made to contractor payments to collect the $1,300 during the remainder of 1997 or in 1998.

Second, the division was inconsistent in collecting the liquidated damage assessments from one contractor. The most significant delays occurred between March and May 1997. The division assessed one contractor a total of $3,100 in liquidated damages during that period, as follows:

March:	$ 800
April:	$1,450
May:	$ 850
Total:	$3,100

No adjustments were made to the monthly payments issued to the contractor during the months of April, May or June. In July 1997, the division made adjustments to the payment issued to the contractor to collect the $3,100.

Other delays in collecting assessments are noted in the following table (**see Table 5)**.

Table 5.

ASSESSMENT AND COLLECTION OF LIQUIDATED DAMAGES

Amount Of Assessment	Month Of Assessment	Preferred Collection Month	Actual Collection Month
$2,750	1997 – January	February	March
$ 800	1997 – March	April	July
$1,450	1997 – April	May	July
$ 850	1997 – May	June	July
$ 600	1997 – July	August	September
$ 500	1997 – August	September	November
$ 700	1997 – September	October	December
$ 400	1997 – October	November	December

Source: OIG analysis of Division of Solid Waste Services data.

Management controls are designed to reasonably ensure that programs achieve their intended results, regulations are followed, and reliable and timely information is obtained, maintained, and reported. Specific control standards require documentation, recording of transactions, execution of transactions, and supervision to ensure management controls are met.

The division has devoted significant resources to ensure that contractors provide a high level of service and comply with contract terms and conditions. The assessment and collection of liquidated damages is an effective tool to use to encourage contractor compliance. The economic incentive is lost, however, if the damages are not assessed and collected from the contractor in a timely manner.

Recommendation:

We recommend the division review its procedures to ensure liquidated damages against a contractor are assessed, collected, and properly documented in a timely manner. We further recommend the division adjust any future payments to the contractor mentioned above to collect the $1,300.

Agency Response:

The Division concurs for the following reason:

Although the January and February 1997 liquidated damages were documented, the corresponding deductions were not made in the contractor payment. We have already used the documentation from our files to recover the liquidated damages as deductions from the May 1999 payment to the contractor. The division's accountant will verify on a monthly basis that all liquidated damages have been promptly and properly assessed.

During 1997 the division and its contractors were implementing major changes in collection services. In order to maximize effective communications between County and contractor staff we preferred to address liquidated damages in meetings with contractors before assessing each damage. Some meetings were postponed, generally at the contractor's request, because of the large workload requirements for implementing changes in collection services. These postponements caused delays in the assessment of damages. The noted delays occurred in 1997. The assessment of damages is now being completed in a timely manner.

2.3 Valid and Reliable Data.

Has division management used valid and reliable data in reporting measures of program efficiency and effectiveness? Our findings with respect to data issues (**Finding Nos. 21 – 23**) show the need for the division to complete a key study in a more timely manner, distinguish between "actual" and "estimated" data in reports, and improve communications with customers and stakeholders. In addition several findings in the next section dealing with prior audit findings also point out concerns with data.

An important concern for any organization is the data upon which it bases decisions. The quality of available data has a direct bearing on the quality of decision-making. Data quality is at best mixed, but evolving over time. Improvements in data quality will benefit the division in the future, but the lack of good data today makes comparing the cost of service delivery over time and with other programs and jurisdictions difficult.

There are two inherent problems with the division's data. The first is that a significant portion of the waste stream is outside the division's control. The second is that the County Council has mandated a cap on waste generation. It is estimated that more than 900,000 tons of waste were generated in the county in FY 98. Of that amount, approximately 540,000 tons (less than 60 percent) are processed by the division and crosses County scales. Much of the remaining waste consists of estimates of varying degrees of reliability. Tonnage information related to materials processed through the Materials Recycling Facility is very reliable because it is weighed by Montgomery County and the processor of the materials. Information on waste delivered to the Transfer Station and attributed to single family homes is highly reliable. Estimates of waste attributable to multi-family and non-residential sources are less reliable because they are from a combination of hauler reports (indicating source of waste) and per capita and per employee estimates all reconciled to the council-mandated waste generation cap, which itself is an estimate. Reports produced by the division need to "solve for" the cap. Information showing total trash generated contains a mix of "actual" information plus "estimates." These figures must match totals allowable under the cap.

A consistent data source over time is the annual report prepared for the Maryland Department of the Environment under requirements of the Maryland Recycling Act ("MRA"). The division provided us with MRA reports from July 1993 through December 1998. Montgomery County now reports MRA information annually on a calendar year basis. We adjusted MRA data to a fiscal year basis to coincide with information in the County's audited financial statements. According to MRA reports, total waste generated in the County over the last five years has increased 7.6 percent while operating expenses associated with managing this waste increased 74.9 percent (**see: Table 6**).

Table 6.

**WASTE GENERATION,
TOTAL COSTS, AND COST PER TON
(FY 1994 and FY 1998)**

	FY 94	FY 98	Percentage Increase FY94 - FY98
Tons of Waste Generated	901,307	970,165	7.6
Total Costs	$52,115,164	$91,151,721	74.9
Cost per Ton	$57.82	$93.95	62.5
Source: OIG analysis of Division of Solid Waste Services and CAFR data.			

Like many other organizations, the division considers some aspects of its operation unique. Because of these unique aspects, the division has concerns about the validity of benchmarking and comparing information from other jurisdictions. However, there are other jurisdictions which provide similar services and their cost information could be used to provide the division with an idea as to whether its costs to provide service are competitive.

Finding No. 21: Division Needs To Complete Solid Waste Generation Study In A More Timely Manner

We found the division has not performed a solid waste generation study within two years of the adoption of Executive Regulation 14-95 as required. Regulation 14-95 became effective on July 1, 1995 and the Division was required to "within two years of the adoption of this regulation, conduct an initial solid waste generation study." The study has not yet been completed.

The regulation has been amended each year since its original adoption. However, none of the amendments changed the original requirement for the waste generation study. This study will form the basis of the non-residential fee structure. In the interests of equity and fairness Montgomery County needs to complete this study. The non-residential Systems Benefit Charge levy raises upwards of $20 million each year. The ratepayers deserve to have this fee calculated based on information reflecting activity of Montgomery County waste generators.

The waste generation study should have been completed by July 1, 1997.

Recommendation:

We recommend the division complete the non-residential waste generation study as soon as possible and incorporate its results into the fee structure as soon as it is completed.

Agency Response:

The Division concurs:

A comprehensive waste generation study is currently being undertaken, in accordance with Executive Regulation No. 9-99, which provides that a study must be completed within two years of its adoption. The study will be completed on or about July 1, 2000. Additionally, a detailed complementary nonresidential waste generation study is scheduled to begin next month. Both of these studies will be used in evaluating and determining waste generation categories for nonresidential properties. For the conclusions to be derived from the studies to be fair and equitable, it is imperative that the studies be statistically valid. Therefore, the studies must include adequate representation of types of land use and be of sufficient duration to be representative of fluctuations in waste generation so that a meaningful annual average estimate of waste generation can be determined. In the meantime, the County has reviewed and is using completed studies from another jurisdiction that is believed to be demographically comparable to Montgomery County.

Finding No. 22: Division Needs To Distinguish Between "Actual" And "Estimated" Numbers In Public Reports

We found the division's public reports do not identify which tonnage numbers are actual scale weights and which are estimates when both are used in the same document. For example, source reduction numbers, such as backyard composting, are estimates. Waste exportation is an estimate. Breakdowns of disposal by generation sector for multi-family and non-residential are estimates. Single family is the only sector for which there is actual generation information. The categorical breakdowns, e.g. food waste, non-ferrous containers, old newspaper, are estimates based on trash composition studies.

The only verifiable data is material crossing the scales at one of the County's facilities, such as the compost facility, materials recycling facility and the transfer station. All other numbers are unaudited estimates.

Mixing actual and estimated data in one report makes analysis and comparisons difficult. It also makes planning more difficult.

Recommendation:

We recommend the division clearly identify tonnage numbers as actual or estimate or a mix of the two. We further recommend the division develop a program to verify hauler reports as is allowed for under Executive Regulation 58-92AM.

Agency Response:

The Division does not concur for the following reasons:

It is true that "the only verifiable data is (for) material crossing the scales at one of the County's facilities, such as the compost facility, materials processing facility and the transfer station." Indeed, all the other numbers are estimates. Our report clearly makes those distinctions. Although tonnage data used from the hauler represented less than 10% of the total FY98 waste generation, the Division added a program for auditing most of the tonnage so reported in preparation of the FY99 recycling rate calculation.

***Finding No. 23*:** Division Needs To Improve Communication With Customers And Stakeholders

We found communication between the division and external stakeholders needs improvement. Timeliness of information presented to the public is poor and its credibility is low.

We asked eight knowledgeable and involved citizens who were not division employees about communication issues. The purpose of the questions was to better understand the quality of communication with people outside the division. Seven of the eight respondents had complaints about the quality of communications from the division. One person's response was mixed. We also reviewed public information pieces sent to citizens. Our review showed the pieces were often lengthy, overly complex, and difficult to follow. (We noted fewer problems with communications between the Sugarloaf Citizens Association and the division. This may be because the communication is legally mandated.)

Effective communication is essential to good management. For example, the Solid Waste Advisory Committee has a statutory requirement to comment on the division's budget and needs adequate to time to study the budget to develop a reasoned position.

The problem has several different causes. One involves poor communication within the division (**see: Finding No. 9**). The other involves a level of distrust informed outsiders have about division information. This distrust is based on years of information and estimates which outsiders told us often change every time they are reviewed.

Poor communication often leads to a less effective organization. Communication based on less than accurate information where numbers change on a regular basis, leads to citizen distrust of division management. That citizen distrust can often lead to unnecessarily confrontational interactions when citizens voice concerns.

Recommendation:

We recommend division employees who have relevant information for external public consumption work more closely together. Management should review and edit brochures and other public information pieces for brevity and clarity. More operational information should be available on line for division staff. Absent this, responsibility for operational data should reside with the person who has the authority to approve and release this information to the public.

Agency Response:

The Division concurs that informing residents about the actual cost of trash disposal is very important. We will continue to pursue improved ways of communicating with residents.

2.4 Prior Audit Findings.

Has division management corrected or otherwise addressed all findings from prior audits and other similar reviews? Our findings with respect to prior audit issues (**Finding Nos. 24 – 28**) show a need to include output measures in benchmarking efforts, prepare easier to understand reports, complete financial reports in a more timely manner, survey customer complaints, and provide monthly reports on pilot programs.

Prompt resolution of audit findings, or audit follow-up, is an important and often neglected step in the audit process. Management should promptly evaluate findings and recommendations reported by auditors, determine proper actions in response to those findings and recommendations, and complete within reasonable time frames all actions that correct or otherwise resolve the matters brought to management's attention. We examined a total of five prior audits and other similar reviews of division programs completed in the last four years. Ecodata, Inc. reviewed solid waste operations for efficiency and effectiveness and issued a report dated March 1995. KPMG Peat Marwick reviewed financial management and data issues in a June 1995 report. Arthur Andersen reviewed the division's methodology for calculating the Systems Benefit Charge in April 1997. The County's Office of Internal Audit focused on the accuracy of computing Systems Benefit Charges on tax bills as part of its annual review of the real estate tax levies for tax years 1995-1996 and 1996-1997.

We counted a total of 51 findings and recommendations from the five prior "audits." We asked management to tell us what the division's response to the findings had been initially and what corrective actions had been taken with respect to those findings. The division told us it had concurred with 34 recommendations, concurred in part with eight, and did not concur with nine. Of those 34 findings where the division "concurred," 17 were said to have been fully resolved, ten were said to have been substantially resolved, and seven findings were described as partially resolved. Of the eight findings where the division had concurred in part, seven were said to have been fully resolved and one partially resolved.

We reviewed a sample of ten findings for completeness of implementation of the audit recommendation (we did not include in our sample eight issues where implementation was obvious including recommendations to switch to weekly refuse collection and to continue county-provided recycling collection for all single-family residents). Of the ten items we sampled we agreed with the division's assessment in five cases. For the other five, we found the items to be unresolved.

Finding No. 24: <u>Division Benchmarking Effort Needs To Include Output Measures</u>

We found the division does not routinely benchmark outcomes. Benchmarking outcomes is a way to measure how well things are progressing, to stop the things that don't work well, to continue to improve the things that are worth investing in, and to inform the public. It is a way to compare policies, practices, philosophies, and performance measures against the best. Every organization has room for improvement and one of the best ways to improve operations is to analyze comparative strengths and weaknesses through benchmarking.

We compiled a list of prior audit findings and asked the division to note its response to the finding and provide the status of the division's corrective action. The Ecodata, Inc. review recommended the division establish a regular program of visiting other communities with outstanding solid waste and recycling collection programs and prepare an annual report on the visits and ideas they generate. The division claims to have fully implemented this audit finding. The division provided information about a visit to Virginia Beach for customer service benchmarking over a year ago and listed two other local meetings. They also provided a handwritten list that appears to be the results of a phone survey of other jurisdictions and samples of some Internet home pages. No formal report was provided. The division has hesitated in using benchmarking information because of the self-described "uniqueness" of Montgomery County. Yet it uses information from one other jurisdiction as the basis for assessing over $20 million in systems benefit charges. All jurisdictions are unique which is why effective benchmarking compares performance to a range of other organizations.

Recommendation:

We recommend the division benchmark outcomes and division staff work with professionals in the field to identify other jurisdictions which have good cost and outcome data and use that information to benchmark Montgomery County performance.

Agency Response:

The Division concurs for the following reason:

The OIG is right that all jurisdictions are unique and that this has inhibited our ability to compare our performance with other jurisdictions. Also, benchmarking is easier to talk about than to do. Nevertheless, we still feel it is a worthwhile goal. Toward this objective, the Division participated in a comparison of solid waste management costs conducted by the Northern Virginia Planning District Council. Theirs was a massive effort, but it highlighted the difficulty in benchmarking where there are major differences in the Solid Waste Systems of the regional jurisdictions. (Also, we could not verify its findings when we queried its sources.) We also agree with the recommendation to find jurisdictions that have good costs and performance data with which to compare. Jurisdictions that operate as a pure enterprise fund and must therefore exercise full cost accounting have good cost data to which we can compare our own. We are currently surveying those jurisdictions nationwide for comparison. In the meantime, we have made progress in developing our own Performance Indicies needed for comparison with other jurisdictions. In this way, benchmarking remains our goal, and we intend to produce a draft benchmarking report over the coming year.

***Finding No. 25*:** Division Needs To Ensure Reports Prepared For Citizens Are Easier To Understand

We found reports prepared by the division for use by citizens are not easy to understand. Effective communication between the division and its customers is important for smooth operations and to minimize the waste produced by misunderstandings resulting from poor communication.

We compiled a list of prior audit findings and asked the division to note its response to each finding and provide the status of the division's corrective action. The Arthur Anderson audit recommended the division's public communications regarding solid waste fees be enhanced. The division claims to have fully implemented this audit finding. The division replied that the "Methodology for Calculating the Solid Waste Service Charges" was the primary document communicating solid waste fees and "contains a concise explanation of how the rates are calculated."

We found this report difficult to understand. Further, it did not address the audit's recommendation that the division compare the daily cost of solid waste services to other commonly used goods and services such as phone calls or the newspaper.

Recommendation:

We recommend the division employees work with public information specialists and citizens to determine what information citizens need and develop publications which are easy for the average resident to understand.

Agency Response:

The Division concurs and will work as recommended with public information specialists and citizens to improve reports.

Finding No. 26: Division Needs To Ensure Financial Reports Are Prepared In A More Timely Manner

We found the division does not report its Performance Indices in a timely manner. The Fiscal Year 1997 Indices were published almost two years after the end of the fiscal year. The 1998 Indices are scheduled to be completed in June 1999, one year after the close of the fiscal year.

We compiled a list of prior audit findings and asked the division to note its response to the finding and provide the status of the division's corrective action. The KPMG Peat Marwick audit recommended the division implement activity-based management including (1) identifying activities, (2) capturing the related revenues and expenses, (3) identifying outputs, (4) linking activity costs to outputs, and (5) analyzing outcomes. The division claims to have substantially implemented this audit finding. The division stated that its Performances Indices address this recommendation.

Financial and accounting information is communication about economic entities to interested parties including the entity itself. Financial reports are expected to represent fairly the activities of an entity and to provide reliable information to interested parties in a timely fashion. Financial reporting must balance reliability and timeliness. The division's lack of timeliness in reporting financial information reduces its value. The most important user of the division's information should be the division itself for planning purposes. The time lag currently experienced means the division is planning (budgeting) without reliable information for the year most recently completed.

Recommendation:

We recommend the division prepare financial reports in a more timely manner. Preliminary financial reports should be completed within 90 days for the end of the fiscal year. All final reports should be complete within 30 days of the publication of the audited financial statements.

Agency Response:

The Division concurs in part.

In developing its budgets, the Division does employ the activity-based management information from the immediately ended fiscal year, as specified in the KPMG Task 2 recommendation cited by the OIG. This information includes:

- *Financial reports and accounting information from Finance*
- *Spending affordability issues*
- *Future fiscal impact statements*
- *Strategic planning by the Division Chief and managers to re-access its service related outcomes and objectives from previous fiscal year*
- *A "budget recap/lessons learned" is performed*
- *This includes "Performance Measures" developed with and approved by OMB*

The Division is also working with SWAC to create the "popular report" called for in the KPMG Task 3 recommendation (i.e. to present cost/activity results as indicators of performance trends). Still in draft form, that report tracks 12 break-outs of Division activity, and is being called "Performance Indicies". (This is to distinguish it from the Performance Measures used for timely feedback within our budget process noted above.) We concur that we have not produced the Performance Indicies report as early as desired, and we will continue to work with SWAC as workload permits to produce updates.

Finding No. 27: Division Needs To Survey Customer Complaints

We found the division no longer has a program to randomly sample the customer satisfaction of citizens who have previously called with a complaint. The practice of surveying customers can provide the division valuable information about the customer's perspective on service delivery. Customer surveys can provide good feedback for the division and its contractors. This program can be an effective tool for internal bench-marking among contractors.

We compiled a list of prior audit findings and asked the division to note its response to the finding and provide the status of the division's corrective action. The Ecodata audit recommended the division establish a program of telephoning a random sample of households who have complained to determine their level of satisfaction. The division claimed to have fully implemented this audit finding. The division provided us with some narrative explaining how the program worked when it was implemented. The narrative stated the program has not been in operation for approximately one year because the division claims to be short staffed.

Recommendation:

We recommend the division resume the program to randomly sample customers who have complained.

Agency Response:

The Division concurs for the following reason:

The Division does random sampling of customers who have had service complaints. We have been calling about 400 customers per month to address various service-related questions. We resumed calling back customers in a more structured manner and are adding customers who had called for services. The results will be summarized on a quarterly basis and used to improve customer service.

Finding No. 28: Division Needs To Provide Monthly Reports On Pilot Programs

We found the division does not report on pilot programs on a monthly basis in a regular format. The discipline of analyzing and writing up pilot program results would provide division management and other interested parties with valuable information to use in decision-making. Absent this information decisions are based on more informal information without the benefit of the rigor of formal analysis. While formal analysis does not guarantee the correct decision it provides a framework for reviewing alternatives.

We compiled a list of prior audit findings and asked the division to note its response to the finding and provide the status of the division's corrective action. The Ecodata audit recommended the division provide monthly reports on the status of its pilot programs. The division claims to have fully implemented this audit finding. The division provided some narrative about the current textile recycling pilot, some handwritten and computer generated information, but no analysis. There was no formal report.

2. FINDINGS AND RECOMMENDATIONS (Continued)

Recommendation:

We recommend the division implement this prior audit recommendation and provide formal written reports on the status of pilot projects. These reports should include appropriate analysis.

Agency Response:

The Division concurs in part for the following reason:

We concur in part with the finding concerning reports on pilot programs.

We keep detailed records of data collected and analyze information at appropriate intervals. We do not normally report data and analyze results on a monthly basis. Reporting and analyzing results on a monthly basis can be an inefficient use of staff resources for pilots where longer term or seasonally variable data are being addressed. We undertake periodical reviews and complete detailed analysis at the end of the pilot to plan future actions and provide analysis at that time. We will develop a section in the monthly report dedicated to pilots and will distribute analysis at the conclusion of each pilot.

3. CONCLUSION

The Division of Solid Waste Services is responsible for managing a $100 million a year program that provides a basic service to County residents on a daily basis. For the most part the division provides this service without fanfare and without incident. Tons of trash are picked up from residences and businesses, transported, and delivered to a County facility to be either recycled, burned, or landfilled.

The solid waste services program is organized, managed, and operated according to the provisions of a strategic, multi-year, comprehensive plan. The division manages or oversees state-of-the-art facilities such as the transfer station, the materials recovery facility, and the resource recovery facility. These complex facilities have been well-engineered and well-built and have received several national awards.

However, as with any well-run program, some things could be done better. The division needs to devote more time and attention to some basic areas – management controls and communications.

Management controls, the day-to-day "nuts and bolts" of the solid waste services program, need attention in some important areas. Controls need to be strengthened in areas dealing with procurement, fixed asset accounting, employee travel, and employee use of telephones. Tightening management controls and providing more oversight in these areas can be done in a cost-effective manner without additional resources.

The division needs to strengthen both internal and external communications. Better communications between management and employees will improve morale and lead to more efficient and effective operations. Improved communications between management and citizens in general and citizen advisory groups in particular will lead to less cynicism and more support for solid waste services programs. Communications would also be greatly enhanced if the division improved data reliability and timely reporting. The collection, storage, and use of benchmarking data that would allow a ready comparison of the division's solid waste services program over time and the division's program with solid waste services programs in other jurisdictions is basic to good management.

A P P E N D I C E S

MONTGOMERY COUNTY 1776 MARYLAND

DEPARTMENT OF PUBLIC WORKS
AND TRANSPORTATION

Douglas M. Duncan
County Executive

Albert J. Genetti, Jr., P.E.
Director

MEMORANDUM

September 24, 1999

TO: Norman D. Butts, Inspector General
Office of the Inspector General

FROM: Albert J. Genetti Jr., Director
Department of Public Works and Transportation

SUBJECT: Review of the Draft Report for Solid Waste Services

This memorandum addresses the draft audit report entitled Solid Waste Services, dated September 8, 1999. My staff and I have reviewed the report and I have several comments on the audit and the resulting report.

During the past several years the Division of Solid Waste Services has undergone major changes in the scope of its responsibilities. It has rapidly changed from an organization that primarily provided collection and landfilling services to a much more complex organization administering a state of the art integrated, multifaceted solid waste system incorporating a Countywide system of user fees. The division now plans and operates a system that includes an expanding recycling system, transfer station, resource recovery facility, compost facility, rail system, closed landfills, hazardous waste drop-offs, and collection of refuse and recyclables. The report notes the many national awards received by these facilities and the improvements made in the delivery of basic refuse and recycling collection services. The division has been engaged in an active process to meet the administrative and staffing challenges of such dramatic change. I believe that the extensive and detailed review of the audit process has benefited the division in continuing to identify areas for improvement and thank you for your efforts. My first few months as director has given me many opportunities to observe the quality of service and ongoing commitment by staff and management in serving the public with reliable and safe solid waste and recycling services.

The draft audit report has approximately 60 pages of findings and responses. Such detail is merited given the scope and complexity of the issues and will benefit the review of the report by the Executive and Council. I recommend that you consider two changes to the report to further benefit the review process. First, in some instances the report expresses opinions that differ from existing County law, regulations or policies. I believe it would be useful to separately denote those issues where the Inspector General believes that a change in County law, regulations or policies merits

Office of the Director
101 Monroe Street, 10th Floor • Rockville, Maryland 20850-2540 • 240/777-7170, FAX 240/777-7178
Located one block west of the Rockville Metro Station

consideration. Second, I recommend that the findings and recommendations summary table be deleted or revised because it materially misleads the reader by oversimplifying findings, recommendations and agency responses. The table is also unfair in that it presents findings and recommendations with some level of explanation and completely omits a division explanation. Additionally, Solid Waste Services was instructed to respond only to the OIG findings but the table lists the "*Agency Response*" as a response to both the OIG findings and recommendations. I therefore believe that the findings and summary table as written will confuse Executive and Council review of this audit. If you choose to include the table I request that you use the attached findings and recommendations summary table which has been modified to describe the "*Agency Response*" in a more informative manner.

I have attached revised responses as well as a proposed findings and recommendations summary table. A disk is also included for your convenience.

Montgomery County Government

ROCKVILLE, MARYLAND 20850

MEMORANDUM

May 15, 1986

TO: John Battan, Chief, Division of Purchasing and Materiel Management, Department of Finance

FROM: Lewis T. Roberts, Chief Administrative Officer

RE: Delegation of Authority to Contract Under Section 11B-42, Montgomery County Code (Cooperative Purchasing, Public Entity Contracting and Grants)

By this memorandum I delegate my authority and authorize the Chief, Division of Purchasing and Materiel Management, Department of Finance, to enter into contracts and to make all necessary determinations and findings required in Section 11B-42, "Cooperative Purchasing, Public Entity Contracting, and Grants", of the Montgomery County Code. All such determinations and findings, including those relating to "public purpose", may be appealed to me for final decision.

I specifically authorize the Chief, Division of Purchasing and Materiel Management, to enter into contracts with public entities to effectuate cooperative purchasing plans and to make determinations as to when the best interests of the County would be served by such plans, as authorized under Section 11B-42 (b).

I further authorize the Chief, Division of Purchasing and Materiel Management, to enter into contracts with public entities upon terms and conditions that are in the best interest of the County as the Chief, Division of Purchasing and Materiel Management, determines, as authorized under Subsection (c) of Section 11B-42 of the Montgomery County Code.

Finally, I also authorize the Chief, Division of Purchasing and Materiel Management, to enter into contracts with entities pursuant to grants and to make the necessary determination that such a contract serves a public purpose, pursuant to Subsection (d) of Section 11B-42, Montgomery County Code.

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It is the responsibility of each of the departments to provide to the Chief, Division of Purchasing and Materiel Management, all necessary information to enable him to make the required determinations. If sufficient information is not furnished, the Chief, Division of Purchasing and Materiel Management, may request additional information or reject the contract.

In any case in which a purchase is made under the provisions of this Section, the Chief, Division of Purchasing and Materiel Management, need not send that purchase to the Contract Review Committee for review or approval. However, the Chief, Division of Purchasing and Materiel Management, will identify the contracts that are executed pursuant to this delegation in the Procurement Weekly Activity Report.

LTR/bsh

cc: Alastair McArthur, Assistant Chief Administrative Officer
Max R. Bohnstedt, Director, Department of Finance

28-1A

14 CRC AUG 19 1992

Montgomery County Government

No Action

approved to use 11B42 for CRC W 8/19/92

MEMORANDUM

August 18, 1992

TO: Contract Review Committee

VIA: H. Christopher Malone
Sr. Assistant County Attorney

FROM: Willard Walton, Jr., Director
Office of Procurement

SUBJECT: Cooperative Purchasing, Public Entity Contracts & Grants

Section 11B-42 of the Montgomery County Code states that, "Notwithstanding any other provisions of this chapter, the chief administrative officer may enter into a contract or lease with any entity that is named or designated in a grant or resolution of a public entity or selected pursuant to a grant or resolution of a public entity named in an appropriation resolution of the county council or a subsequent resolution of the county council, provided that the chief administrative officer determines that the contract or lease serves a public purpose."

The Chief Administrative Officer delegated the authority to the CPMM (Director of Procurement) to enter into contracts and make all necessary determinations and findings required in Section 11B-42, Cooperative Purchasing, Public Entity Contracting & Grants, in the attached memorandum dated May 15, 1986. The memorandum states that all such determinations may be appealed to the CAO. The memorandum further states that any purchase made under Section 11B-42 need not be sent to the CRC for review and approval.

WW:pf:adm139

Attachment

Buyers,
As note.
no CRC Approval is needed for procurement actions resulting from GRANTS or resolutions from the State or the Council -
WHB
8/19

Rockville Metro Center, 250 Hungerford Drive, Room 175, Rockville, Maryland 20850-4153
301/217-2062, TDD 301/217-6901, FAX 301/217-7205

KHMM FYI
MT 10/24

Ginny,
Does this include requests for advance pay.
MT 10/24

Government Operations staff
As note. We should not be putting these types of actions on the CRC agenda.
Thanks. GAB 10/21/94

Montgomery County Government

MEMORANDUM

October 19, 1994

TO: Virginia A. Baxter, Chief
Procurement Section

FROM: Willard Walton, Jr., Director
Office of Procurement WW

SUBJECT: Chapter 11B-42

Ginny, as you are aware, contracts to include modifications made pursuant to Chapter 11B-42 do not require review and approval by the Contract Review Committee. This authority has been delegated by the CAO to the Director, Office of Procurement. (See attached memorandum dated 5/15/86.)

Recently we have received several requests for CRC review of items that are exempt under Chapter 11B-42. As a reminder to your staff, you may want to reissue the attached memos.

WW:bw:gb

No. Advance pay must be approved by the CRC. The CRC needs to know, however, that that is why the item (Grant) is on the agenda.
GAB 10/24/94

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